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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

	)	Chapter 11
In re:	)	Case No. 18-23538 (RDD)
	)	
SEARS HOLDINGS CORPORATION, *et al.*,	)	(Jointly Administered)
	)	
Debtors.[1]	)	

MOAC MALL HOLDINGS LLC'S
STATEMENT OF ISSUES TO BE PRESENTED AND

[1] The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's tax identification number are as follows: Sears Holdings Corporation (0798); Kmart Holding Corporation (3116); Kmart Operations LLC (6546); Sears Operations LLC (4331); Sears, Roebuck and Co. (0680); ServiceLive Inc. (6774); A&E Factory Service, LLC (6695); A&E Home Delivery, LLC (0205); A&E Lawn & Garden, LLC (5028); A&E Signature Service, LLC (0204); FBA Holdings Inc. (6537); Innovel Solutions, Inc. (7180); Kmart Corporation (9500); MaxServ, Inc. (7626); Private Brands, Ltd. (4022); Sears Development Co. (6028); Sears Holdings Management Corporation (2148); Sears Home & Business Franchises, Inc. (6742); Sears Home Improvement Products, Inc. (8591); Sears Insurance Services, L.L.C. (7182); Sears Procurement Services, Inc. (2859); Sears Protection Company (1250); Sears Protection Company (PR) Inc. (4861); Sears Roebuck Acceptance Corp. (0535); Sears, Roebuck de Puerto Rico, Inc. (3626); SYW Relay LLC (1870); Wally Labs LLC (None); Big Beaver of Florida Development, LLC (None); California Builder Appliances, Inc. (6327); Florida Builder Appliances, Inc. (9133); KBL Holding Inc. (1295); KLC, Inc. (0839); Kmart of Michigan, Inc. (1696); Kmart of Washington LLC (8898); Kmart Stores of Illinois LLC (8897); Kmart Stores of Texas LLC (8915); MyGofer LLC (5531); Sears Brands Business Unit Corporation (4658); Sears Holdings Publishing Company, LLC. (5554); Sears Protection Company (Florida), L.L.C. (4239); SHC Desert Springs, LLC (None); SOE, Inc. (9616); StarWest, LLC (5379); STI Merchandising, Inc. (0188); Troy Coolidge No. 13, LLC (None); BlueLight.com, Inc. (7034); Sears Brands, L.L.C. (4664); Sears Buying Services, Inc. (6533); Kmart.com LLC (9022); and Sears Brands Management Corporation (5365). The location of the Debtors' corporate headquarters is 3333 Beverly Road, Hoffman Estates, Illinois 60179.

DESIGNATION OF ITEMS TO BE INCLUDED IN THE RECORD ON APPEAL

Pursuant to Rule 8009 of the Federal Rules of Bankruptcy Procedure, and Rule 8009-1 of the Local Rules of the Southern District of New York, MOAC Mall Holdings LLC ("**MOAC**"), respectfully submits this statement of issues to be presented and designation of items to be included in the record on appeal with respect to the appeal from the September 5, 2019 *Order (I) Authorizing Assumption and Assignment of Lease with MOAC Mall Holdings LLC and (II) Granting Related Relief* [ECF No. 5074] (the "**Assignment Order**"), before the United States District Court for the Southern District of New York at a case number to be determined once the *Notice of Appeal of Final Order Authorizing Assumption and Assignment of Lease with MOAC Mall Holdings LLC* [ECF No. 5133] is docketed in the District Court.

I. Statement of Issues to be Presented on Appeal

1. Whether the Bankruptcy Court erred in granting the assumption and assignment of the above-captioned debtors' (the "**debtors**") lease with MOAC (the "**Lease**")[2] to Transform Leaseco LLC (collectively with its affiliates, including Transform Holdco LLC, "**Transform**").
2. Whether the Bankruptcy Court erred in holding that, notwithstanding the unconditional nature of the rights and protections granted to shopping-center lessors by Congress in Section 365(b)(3)(A) and (D), such rights and protections may be abridged or denied as a result of provisions of a lease sought to be assumed and assigned.

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[2] As used in this context, the Lease refers to the property lease itself, as well as a reciprocal easement agreement, and other related agreements included in the assignment.

3. Whether the Bankruptcy Court erred in its determination that, despite finding that Transform does not have similar financial condition or operating performance as the debtors' financial condition and operating performance at the time the debtors entered into the Lease, Transform still satisfied 11 U.S.C. § 365(b)(3)(A).
4. Whether the Bankruptcy Court erred in its determination that 11 U.S.C. § 365(b)(3)(D)'s requirement of adequate assurance that the assumption and assignment "not disrupt any tenant mix or balance in such shopping center" does not prevent the assumption and assignment of the Lease to Transform where there is *no* proposed use or *any* proposed tenant or tenants for the leased premises.

II. Designation of Items to be Included in the Record on Appeal

MOAC designates the following items for inclusion in the record on appeal. Each designated item shall also include any and all exhibits and documents annexed to and referenced within such items.[3]

A. Documents Filed in Bankruptcy Court

ECF Docket No.	***Date***	***Description***
1774	01/23/19	Supplemental Notice of Cure Costs and Potential Assumption and Assignment of Executory Contracts and Unexpired Leases in Connection with Global Sale Transaction
2199	01/31/19	MOAC Mall Holding [sic] LLC's Objection to Supplemental Notice of Cure Costs and Potential Assumption and Assignment of Executory Contracts and Unexpired Leases in Connection with Global Sale Transaction

[3] Once a case number is assigned with the District Court, MOAC will file a motion with the District Court to accept documents filed under seal on the docket in the Bankruptcy Court, pursuant to Bankruptcy Rule 8009(f). Pursuant to Local Bankruptcy Rule 8009-1(a), a copy of each designated item not already appearing on the Bankruptcy Court docket is attached and filed with this document.

ECF Docket No.	*Date*	*Description*
2507	02/08/29	Order (I) Approving the Asset Purchase Agreement among Sellers and Buyer, (II) Authorizing the Sale of Certain of the Debtors' Assets Free and Clear of Liens, Claims Interests and Encumbrances, (III) Authorizing the Assumption and Assignment of Certain Executory Contracts, and Leases in Connection Therewith and (IV) Granting Related Relief
3008	04/02/19	Order (I) Authorizing Assumption and Assignment of Certain Executory Contracts and Leases and (II) Granting Related Relief
3298	04/19/19	Notice of Assumption and Assignment of Additional Designatable Leases
3501	05/02/19	MOAC Mall Holdings LLC's Second Supplemental and Amended: (I) Objections to Debtor's [sic] Notice of Assumption and Assignment of Additional Designatable Leases, and (II) Objection to Debtor's [sic] Stated Cure Amount
3651	05/06/19	Debtors' Response and Reservation of Rights with Respect to Objections to Cure Amounts and/or Assumption and Assignment of Designatable Leases
3654	05/07/19	Transform Holdco LLC's Omnibus Reply in Support of Assumption and Assignment of Designated Leases (FILED UNDER SEAL)
3926	05/17/19	MOAC Mall Holdings LLC's Third Supplemental and Amended Objections to Debtor's [sic] Notice of Assumption and Assignment of Additional Designatable Leases
3927	05/17/19	Declaration of Rich Hoge Supporting MOAC Mall Holdings LLC's Third Supplemental and Amended Objections to Debtor's [sic] Notice of Assumption and Assignment of Additional Designatable Leases
4450	07/08/19	MOAC Mall Holdings LLC's Fourth Supplemental (I) Objections and Reply to Debtor's [sic] Notice of Assumption and Assignment of Additional Designatable Leases, and (II) Objection to Debtor's [sic] Stated Cure Amount
4451	07/08/19	Declaration of Thomas J. Flynn Supporting MOAC Mall Holdings LLC's Fourth Supplemental (I) Objections and Reply to Debtor's [sic] Notice of Assumption and Assignment of Additional Designatable Leases, and (II) Objection to Debtor's [sic] Stated Cure Amount

ECF Docket No.	***Date***	***Description***
4454	07/08/19	Transform Holdco LLC's Reply to MOAC Mall Holdings LLC's (I) Objection to Supplemental Notice of Cure Costs and Potential Assumption and Assignment of Executory Contracts and Unexpired Leases in Connection with Global Sale Transaction; (II) Second Supplemental and Amended: (A) Objections to Debtor's [sic] Notice of Assumption and Assignment of Additional Designatable Leases, and (B) Objection to Debtor's [sic] Stated Cure Amount; and (III) Third Supplemental and Amended Objections to Debtor's [sic] Notice of Assumption and Assignment of Additional Designatable Leases
4864	08/19/19	List of Agreed Exhibits Regarding Assumption and Assignment of the MOAC Lease
4865	08/16/19	Stipulation of Facts Not in Dispute Regarding Assumption and Assignment of the MOAC Lease
4867	08/16/19	Transform Holdco LLC's Supplemental Reply and Cross-Motion to: (A) Strike MOAC Mall Holdings LLC's Fourth Supplemental (I) Objections and Reply to Debtor's [sic] Notice of Assumption and Assignment of Additional Designatable Leases, and (II) Objection to Debtor's [sic] Stated Cure Amount; and (B) Permit Late Filed Responses to Requests for Admission
4874	08/18/19	Declaration of Louis W. Frillman in Opposition to the Proposed Assumption and Assignment of the MOAC Lease (FILED UNDER SEAL)
4875	08/18/19	Declaration of Raphael Ghermezian in Opposition to the Proposed Assumption and Assignment of the MOAC Lease
4876	08/18/19	Declaration of Rich Hoge in Opposition to the Proposed Assumption and Assignment of the MOAC Lease
4879	08/19/19	Evidentiary Hearing Declaration of Roger A. Puerto in Support of Transform Holdco LLC's Reply to MOAC Mall Holdings LLC's (I) Objection to Supplemental Notice of Cure Costs and Potential Assumption and Assignment of Executory Contracts and Unexpired Leases in Connection with Global Sale Transaction; (II) Second Supplemental and Amended: (A) Objections to Debtor's [sic] Notice of Assumption and Assignment of Additional Designatable Leases, and (B) Objection to Debtor's [sic] Stated Cure Amount; and (III) Third Supplemental and Amended Objections to Debtor's [sic] Notice of Assumption and Assignment of Additional Designatable Leases (FILED UNDER SEAL)

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ECF Docket No.	***Date***	***Description***
4880	08/19/19	Evidentiary Hearing Declaration of Michael Jerbich in Support of Transform Holdco LLC's Reply to MOAC Mall Holdings LLC's (I) Objection to Supplemental Notice of Cure Costs and Potential Assumption and Assignment of Executory Contracts and Unexpired Leases in Connection with Global Sale Transaction; (II) Second Supplemental and Amended: (A) Objections to Debtor's [sic] Notice of Assumption and Assignment of Additional Designatable Leases, and (B) Objection to Debtor's [sic] Stated Cure Amount; and (III) Third Supplemental and Amended Objections to Debtor's [sic] Notice of Assumption and Assignment of Additional Designatable Leases
4889	08/19/19	MOAC Mall Holdings LLC's Pre-Evidentiary Hearing Brief Regarding the Proposed Assumption and Assignment of the MOAC Lease
4903	08/20/19	Transform Holdco LLC's Amended Supplemental Reply and Cross-Motion to Strike MOAC Mall Holding [sic] LLC's Pre-Evidentiary Hearing Brief Regarding the Proposed Assumption and Assignment of the MOAC Lease
4915	08/20/19	MOAC Mall Holdings LLC's Reply Objecting to Transform Holdco LLC's Motion to (A) Strike MOAC's July 8 Supplemental Objection and (B) Permit Late Responses to Requests for Admissions
5074	09/05/19	Order (I) Authorizing Assumption and Assignment of Lease with MOAC Mall Holdings LLC and (II) Granting Related Relief
5133	09/12/19	Notice of Appeal of Final Order Authorizing Assumption and Assignment of Lease with MOAC Mall Holdings LLC
n/a	n/a	Copy of Bankruptcy Court Docket Report through September 25, 2019

B. Stipulated Exhibits for the August 23, 2019 hearing

Exhibit No.	***Date***	***Description***
Buyer-A		Mall of America: By the Numbers (Filed as Exhibit A to ECF No. 4454)
Buyer-B		Spring 2017 Map + Directory (Filed as Exhibit B to ECF No. 4454)

Exhibit No.	***Date***	***Description***
Buyer-C		Transform's Selected Portions of the Lease, REA, and Option Agreement (Filed as Exhibit C to ECF No. 4454)
Buyer-D	07/08/19	CPI Inflation Calculator, Bureau of Lab. Stats., https://www.bls.gov/data/inflation_calculator.htm (Filed as Exhibit D to ECF No. 4454)
1-MOAC	05/30/91	MOAC Lease (Filed as Exhibit A to ECF No. 3927 at 8–88)
2-MOAC	05/30/91	Option to Lease Third Floor ("Third Floor Addendum") (Filed as Exhibit B to ECF No. 3927 at 90–96)
3-MOAC	05/30/91	Amended and Restated Reciprocal Easement and Operating Agreement ("MOAC REA") (Filed as Exhibit F to ECF No. 4451 at 59–309)
4-MOAC	04/09/19	MOAC Proof of Claim, dated April 9, 2019 (Filed as a Proof of Claim on April 9, 2019)
5-MOAC	08/15/19	MOAC Lease Cure Amount Summary ("MOAC Cure Summary")
6-MOAC	07/02/19	Debtor's Objections and Responses to MOAC Mall Holding LLC's Interrogatories to the Debtor ("Debtor IROG Responses") (Filed as Exhibit B to ECF No. 4451 at 22–34.)
7-MOAC	03/27/92	Form 10-K for Sears, Roebuck and Co., for 1991 (ending December 31, 1991) ("Sears 1991 10-K")
8-MOAC	08/13/91	Form 10-Q for Sears, Roebuck and Co., for the second quarter of 1991 (ending June 30, 1991) ("Sears 10-Q 2Q1991")
9-MOAC	07/02/19	Debtor's Objections and Responses to MOAC Mall Holding LLC's Requests for Admissions from the Debtor ("Debtor's Admissions") (Filed as Exhibit A to ECF No. 4451 at 5–20.)
10-MOAC	05/17/19	MOAC Mall Holding LLC's Requests for Admission from Transform Holdco LLC (with service email) ("Transform RFA")
11-MOAC	07/26/19	Letter from Transform, dated July 26, 2019, with objection and responses to MOAC's discovery requests ("Transform's Discovery Responses")

Exhibit No.	*Date*	*Description*
12-MOAC	04/26/19	CONFIDENTIAL Financials from Transform (“Transform Financials”) (FILED UNDER SEAL, in substantially the same form with regard to relevant sections, as Exhibits B, E, F to ECF No. 3654-2 at 17–23, 33–36)
13-MOAC	06/03/19	Selected email correspondence, dated May 30 to June 3, 2019 (Filed as Exhibit E to ECF No. 4451 at 56–57.)
14-MOAC	03/23/18	Form 10-K for Sears Holdings Corporation for 2017 (ending February 3, 2018) (“Sears 2017 10-K”)
15-MOAC	09/13/18	Form 10-Q for Sears Holdings Corporation for the second quarter of 2018 (ending August 4, 2018) (“Sears 10-Q 2Q2018”)
16-MOAC	05/06/19	Transform Holdco LLC’s [Confidential] Omnibus Reply in Support of Assumption and Assignment of Designated Leases (FILED UNDER SEAL as ECF No. 3654)

C. Transcripts

Date	*Description*
08/23/19	Transcript from evidentiary hearing and oral rendering of Bankruptcy Court decision

Dated: September 26, 2019
Minneapolis, Minnesota

Respectfully submitted,

/e/Thomas J. Flynn

Thomas J. Flynn
Admitted *pro hac vice* on December 26, 2018
Alexander J. Beeby
Admitted *pro hac vice* on August 28, 2019
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Dated: September 26, 2019

/e/David W. Dykhouse

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Attorneys for MOAC Mall Holdings LLC

Exhibit 5 - MOAC

Sears Balance Due – Cure Amount
(Summary pursuant to Fed. R. Evid. 1006[1])

Description	Amount	Comments
2018 Year-End Tax Adjustment	$475,507.38	
2018 Year-End Electric Adjustment	$53,229.01	Tenant has already paid post-petition portion; this amount is net remaining due
2nd Quarter Electric Charge	$50,000.00	
April Fixed CAM Charge	$0.00	Tenant paid this charge on 4/29/19
Balance Due through 4/30/19	$578,736.39	Transform sent a check on May 29, 2019 for this amount of $578,736.39, which the Landlord may deposit and apply towards the cure amount without prejudice to its rights or objections to the assumption and assignment of the Lease.
May Fixed CAM Charge	$0.00	Tenant has paid the $31,133.20 CAM Charge
June Fixed CAM Charge	$0.00	Tenant has paid the $31,133.20 CAM Charge
July Fixed CAM Charge	$0.00	Tenant has paid the $31,133.20 CAM Charge
July Quarterly Electric Charge	$50,000.00	
August Fixed CAM Charge	$0.00	Tenant has paid the $31,133.20 CAM Charge
Attorneys' Fees and Expenses[2]	$72,063.52	Only through 7/31/19
Balance as of 8/22/19	$699,570.11	

4820-0171-7663, v. 1

[1] All backup, original and duplicate information relating to the charges are available for inspection, examination and copying at any reasonable time by contacting attorney for MOAC.
[2] Attorneys' fees and expenses continue to accrue.

Exhibit
5-MOAC

Exhibit 7 - MOAC

1004497 SIGNED COPY

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1991

Commission file number 1-416

SEARS, ROEBUCK AND CO.
(Exact name of registrant as specified in its charter)

New York (State of Incorporation)	36-1750680 (I.R.S. Employer Identification No.)
Sears Tower, Chicago, Illinois (Address of principal executive offices)	60684 (Zip Code)

Registrant's telephone number, including area code: (312) 875-2500

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, par value $0.75 per share	New York Stock Exchange Midwest Stock Exchange Pacific Stock Exchange
Depositary Shares, each representing a one-fourth interest in an 8.88% Preferred Share, par value $1.00 per share	New York Stock Exchange
Depositary Shares, each representing a one-fourth interest in a Series A Mandatorily Exchangeable Preferred Share, par value $1.00 per share	New York Stock Exchange
13-1/4% Notes due September 1, 1992	New York Stock Exchange
12% Notes due January 15, 1994	New York Stock Exchange
Extendable Notes due April 15, 1999	New York Stock Exchange
9-1/2% Notes due June 1, 1999	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

On January 31, 1992 Registrant had 344,126,727 common shares outstanding. Of these, 276,675,745 common shares, having an aggregate market value (based on the closing price of these shares as reported in a summary of composite transactions in *The Wall Street Journal* for stocks listed on the New York Stock Exchange on January 31, 1992) of approximately $11.3 billion, were owned by shareholders other than directors and executive officers of the Registrant, The Savings and Profit Sharing Fund of Sears Employees and beneficial holders of five percent or more of Registrant's outstanding common shares.

Exhibit
7-MOAC

Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes X No __

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Documents Incorporated By Reference

Portions of the following documents are incorporated by reference as follows:

Documents Incorporated	Part of Form 10-K
Sears, Roebuck and Co. Annual Report - 1991 ("1991 Annual Report")	I and II
Sears, Roebuck and Co. Proxy Statement for the 1992 annual meeting ("1992 Proxy Statement")	III

PART I

Item 1. *Business*

Sears, Roebuck and Co. ("Sears") originated from an enterprise established in 1886. It was incorporated under the laws of New York in 1906. Its general offices are located at Sears Tower, Chicago, Illinois, which it indirectly owns. The principal business groups of Sears and its consolidated subsidiaries (the "Company") are:

- Sears Merchandise Group, which conducts merchandising and credit operations in the United States, Canada and Mexico. It is among the largest retailers in the world, on the basis of sales of merchandise and services.

- Allstate Insurance Group, which includes property-liability insurance and life insurance.

- Dean Witter Financial Services Group, which includes: securities businesses engaging in securities and futures brokerage, asset management, investment banking, securities trading and securities lending; and credit services businesses engaging in credit card services and consumer finance services.

- Coldwell Banker Real Estate Group, which invests in, develops and manages real estate, performs residential real estate brokerage and related services, and engages in the formation and sale of mortgage-related securities and mortgage banking.

These business groups have been linked together to build a consumer network in merchandising, insurance, lending, asset management and real estate, able to call upon the Company's basic strengths, including business relationships with more than 70% of the households in the United States coupled with a strong reputation for trust and service, multiple consumer product and service distribution channels, a substantial financial base with total assets of $106.4 billion at December 31, 1991, and one of the nation's most sophisticated information processing and telecommunications networks. Information processing and telecommunications services are provided to the Company by Sears Technology Services, Inc. ("STS"), a wholly-owned subsidiary of Sears, and its subsidiaries.

A number of previously-announced actions have been accomplished or are well on their way to completion. In the Merchandise Group, a facility in the Chicago suburbs is under construction on a site acquired for the Group's headquarters. Implementation and refinement of the Group's merchandising strategies, including everyday competitive pricing, special sales events, an intense customer-focused emphasis on merchandising and quality service, and retrofitting of the Group's department stores into a series of in-store "power formats" featuring goods sold under other national brand names in addition to Sears own brand names, continued. Programs initiated in August 1990 resulted in significant cost reductions by year-end 1991. Cost reduction programs will continue. For further information, see "Sears Merchandise Group - Merchandising" and "Sears Merchandise Group - Cost Reduction Programs" below; and "Analysis of Consolidated Operations" and Sears Merchandise Group "Analysis of Operations," beginning on pages 14 and 29, respectively, of the Company's 1991 Annual Report, incorporated herein by reference in response to Item 7 hereof. In November 1991 and early 1992, Sears issued $325 million of 8.88% Preferred Shares, First Series, and approximately $1.2 billion of Series A Mandatorily Exchangeable Preferred Shares. The issuance of these preferred shares is intended to bolster the Company's equity capital to sustain

future growth. For further information, see Item 5 - "Market for Registrant's Common Equity and Related Stockholder Matters" below; and "Analysis of Consolidated Financial Condition" and note 14 of the Notes to Consolidated Financial Statements on pages 17 and 27, respectively, of the Company's 1991 Annual Report, incorporated herein by reference in response to Items 7 and 8 hereof.

Information regarding revenues, income before income taxes, minority interest and equity income, net income and assets of each of the Company's business groups for each of the five years ended December 31, 1991 is in the Five-Year Summary of Business Group Data on pages 12 and 13 of the Company's 1991 Annual Report, incorporated herein by reference in response to Item 8 hereof. Information on the components of revenues is included in the analysis of operations of each of the Company's business groups beginning on pages 29, 34, 40 and 44, and in the summarized Group financial statements beginning on page 29, of the Company's 1991 Annual Report, incorporated herein by reference in response to Items 7 and 8 hereof.

The Company employs approximately 450,000 people worldwide, including its Corporate staff.

SEARS MERCHANDISE GROUP

The Merchandise Group consists of Merchandising, Credit and International operations.

Merchandising

Merchandising sells a broad line of general merchandise and services through various types and sizes of retail facilities, catalogs and direct marketing in the United States. The retail facilities include department stores, which include large-size stores located principally in major metropolitan areas; medium-size stores, which also carry an extensive assortment of merchandise; and hard-line stores, which serve either neighborhoods of metropolitan areas or smaller communities and stock a limited selection of appliances, hardware, sporting goods and automotive supplies. In addition, Merchandising operates Sears Paint and Hardware stores, Western Auto Supply Company and its subsidiaries, including Tire America and NTW ("Western Auto"), and Sears Business Centers ("Business Centers"). Merchandising also sells through retail and catalog outlet stores.

Implementation and refinement of Merchandising's strategies, including its everyday competitive pricing policy, special sales events and intense customer-focused emphasis on merchandising and quality service, continued in 1991. Merchandising continues to expand the wide selection of national brand name goods offered to complement Sears own brand name goods.

Merchandising's "power format" strategy of converting its department stores by placing a series of "superstores" within a store is intended to create a dominant position in each of Merchandising's major departments, meet shoppers' needs for a mixture of national brands and high-quality private label merchandise at competitive prices, put the right products and styles (including brand names) in exciting, inviting departments throughout the stores, and, together with Sears credit and product services, offer a merchandising program which provides Merchandising with a competitive edge. Each power format is positioned against the strongest competitors (which are usually specialty stores focusing on one type of business) in its merchandising category and has its own distinct selling space and presentation. There are currently seven power formats: Brand Central for home appliances and home electronics; Sears Tire and Auto Centers for tires, batteries and other key automotive products and services; Kids & More, The Women's Store at Sears and The Men's Store at Sears for apparel; Craftsman Home and Yard Centers for hardware, home improvement products and services and lawn and patio items; and one for home fashions, which includes furniture, floorcoverings, and window, bed and bath fashions. The furniture power format is called Homelife by Sears and may either be free-standing or a part of a larger Sears store. Both Brand Central and Sears Tire and Auto Centers offer customers leading brand names backed by nationwide service, with Brand Central featuring over 80 national brands in addition to Sears Kenmore appliances and Series LXI home electronics and Sears Tire and Auto Centers featuring approximately 60 national brands of automotive products in addition to Sears RoadHandler and DieHard brands. The national roll-out of the Brand Central power format was completed in 1990, and the total number of locations was 905 as of December 31, 1991. The national roll-out of the Sears Tire and Auto Center power format was completed in 1991, with 789 in place at December 31, 1991. The other power formats are being implemented on a store-by store, market-by-market basis. The strategy for apparel, as well as the other power formats, also includes the offering of a wide selection of national brand goods at competitive prices to complement Sears own brand name goods. As of December 31, 1991, the number of these power formats in place was: Kids & More, 114 locations; The Women's Store at Sears, 105 locations; The Men's Store at Sears, 109 locations; Craftsman Home and Yard Centers, 119 locations; Homelife, 42 in-store and 22 freestanding locations; and other home fashions, 114 locations. Refinement of these power formats

is continuing, and merchandise quality and selection will be consistent throughout Merchandising's department stores, including those which do not yet fully reflect Merchandising's strategies.

Western Auto is a leading retail and wholesale marketer of automotive supplies, tires, appliances and lawn and garden equipment. Western Auto operates through 548 company-owned retail stores in 29 states and in Puerto Rico and sells at wholesale to 1,021 independently owned and operated dealer stores nationwide.

The Business Centers, some of which are located in Merchandising's department stores and called "Office Centers", carry a broad line of computer equipment for both personal and business needs, including complete computer systems and software under leading brand names.

Sears Specialty Merchandising operates Eye Care Centers of America, Inc. ("Eye Care Centers") and Pinstripes Petites, Inc. ("Pinstripes Petites"). Eye Care Centers, an eye wear superstore chain, operates as EyeMasters in the Southwest and Binyon's in the Pacific Northwest. Pinstripes Petites is a women's specialty store chain.

Catalog operations include a broad distribution of general, seasonal, supplemental and specialty catalogs. Orders for merchandise in Sears catalogs are placed by customers in person, by mail or by telephone. These orders are received at catalog counters operated in retail stores, at 33 catalog sales offices, and at the offices of 2,178 independent sales merchants and agents. A nationwide toll-free number is available to order merchandise through ten telecatalog centers.

Merchandising's Product Services operations provide repair parts, consumer service and repair work on national brand name items in addition to Sears brand name products. Product Services also offers installation, repair, monitoring and other services for consumer and commercial programs.

Sources of Merchandise

Merchandising (including Sears Specialty Merchandising) purchases goods primarily from approximately 10,500 domestic suppliers, most of whom have been suppliers for many years.

Seasonality

Merchandising sales in the fourth quarter are traditionally higher than in other quarterly periods because of holiday buying patterns. This results in a lower ratio of fixed costs to sales and produces a higher ratio of operating income to sales in the fourth quarter. Traditional business patterns also generally result in the lowest sales in the first quarter, producing a relatively high ratio of fixed costs to sales and a lower ratio of operating income to sales, as compared with other periods.

Employees

Merchandising employs approximately 292,800 people, including part-time employees.

Properties

A new facility for the Merchandise Group's headquarters offices is under construction in Hoffman Estates, Illinois. The phased relocation from Sears Tower is expected to begin in mid-1992.

The following table sets forth information concerning stores opened and closed by Merchandising during 1991:

	Operating beginning of year	Opened(a)	Closed(a)	Reclassified	Operating end of year(b)
Large-Size stores	410	8	(3)	1	416
Medium-Size stores	398	17	(13)	(1)	401
Hard-Line stores	55	-	(4)	-	51
Department Stores subtotal	863	25	(20)	-	868
Free-standing Homelife stores	5	17	-	-	22
Paint and Hardware stores	98	4	(5)	-	97
Catalog outlet stores	101	3	(10)	-	94
Western Auto	504	58	(14)	-	548
Business Centers	65	3	(15)	-	53
Eye Care Centers	94	19	(11)	-	102
Pinstripes Petites	40	-	-	-	40
Specialty Stores subtotal	907	104	(55)	-	956
Total	1,770	129	(75)	-	1,824

(a) Of the 25 department stores opened and 20 department stores closed by Merchandising during 1991, 12 represented relocations of existing department stores. Excluding relocations, eight department stores were closed during the year.

(b) Four of the Western Auto stores were located at department stores.

For Merchandising, Credit and Sears Specialty Merchandising, the capital expenditures for expansion and remodeling and other improvements (including capitalized financing leases but excluding amounts expended for administrative offices) amounted to $241.8 million for the year ended December 31, 1991. In 1992, Merchandising plans to open approximately 14 new department stores, consisting of approximately six in new markets and approximately eight relocations, and to continue the program of remerchandising existing units. In addition, Merchandising plans to continue opening new specialty stores.

The following tabulation summarizes the stores owned or leased by Merchandising at December 31, 1991:

		Leased (a)			
		Operating Leases			
	Owned	Gross and Net Leases(b)	Short-Term and Percentage Leases (c)	Capital Leases (d)	Total (e)
Large-Size stores	341	47	2	26	416
Medium-Size stores	97	239	40	25	401
Hard-Line stores	-	45	4	2	51
Department Stores subtotal	438	331	46	53	868
Free-standing Homelife stores	-	22	-	-	22
Paint and Hardware stores	-	93	-	4	97
Catalog outlet stores	7	82	-	5	94
Western Auto	104	444	-	-	548
Business Centers	2	51	-	-	53
Eye Care Centers	-	94	8	-	102
Pinstripes Petites	-	40	-	-	40
Specialty Stores subtotal	113	826	8	9	956
Total	551	1,157	54	62	1,824

(a) Many of the leases contain renewal options. With respect to 13 stores, leased prior to 1960 with lease terms ranging up to 45 years, Sears has the option to purchase the premises, terminate the lease or continue the terms at substantially reduced rentals.

(b) Leased for terms ranging from one to 99 years. Rentals are either fixed or fixed at minimum rentals coupled with a percentage of sales, including some sale and leaseback arrangements.

(c) Leased for a term, or with a remaining term, of less than one year or under leases providing for payments based only on a percentage of sales.

(d) Leased for terms ranging from five to 99 years. The leases have been capitalized as assets of Merchandising.

(e) Four of the Western Auto stores were located at department stores.

In addition, there were 1,112 other sales and service facilities and 33 catalog sales offices, most of which are occupied under short-term leases or are a part of other Sears facilities included in the above tabulation.

The following schedule shows department and specialty stores, store space and net sales per square foot generated in these stores (including certain catalog counter and service sales) for 1991, 1990 and 1989:

Stores in Operation at End of Year

	1991	1990	1989
Large-Size stores	416	410	403
Medium-Size stores	401	398	388
Hard-Line stores	51	55	56
Department Stores subtotal	868	863	847
Free-standing Homelife stores	22	5	-
Paint and Hardware stores	97	98	107
Catalog outlet stores	94	101	105
Western Auto	548	504	468
Business Centers	53	65	61
Eye Care Centers	102	94	104
Pinstripes Petites	40	40	39
Specialty Stores subtotal	956	907	884
Total	1,824	1,770	1,731

Retail Space at Year End (Square Feet in Millions)

	1991	1990	1989
Gross Area			
Large-Size stores	82.4	81.6	81.2
Medium-Size stores	34.5	34.3	33.6
Hard-Line stores	1.2	1.3	1.3
Department Stores subtotal	118.1	117.2	116.1
Free-standing Homelife stores	.8	.2	-
Paint and Hardware stores	.5	.5	.6
Catalog outlet stores	3.1	3.2	2.9
Western Auto	6.5	6.0	5.5
Business Centers	.2	.2	.2
Eye Care Centers	.5	.5	.6
Pinstripes Petites	.1	.1	.1
Specialty Stores subtotal	11.7	10.7	9.9
Total	129.8	127.9	126.0
Selling Area			
Large-Size stores	41.3	40.7	40.2
Medium-Size stores	19.0	18.8	18.1
Hard-Line stores	.6	.6	.6
Department Stores subtotal	60.9	60.1	58.9
Free-standing Homelife stores	.7	.1	-
Paint and Hardware stores	.4	.4	.4
Catalog outlet stores	2.1	2.1	2.0
Western Auto	3.7	3.5	3.2
Business Centers	.1	.2	.2
Eye Care Centers	.3	.3	.4
Pinstripes Petites	.1	.1	.1
Specialty Stores subtotal	7.4	6.7	6.3
Total	68.3	66.8	65.2
Net Sales per Square Foot (Selling Area)	$332	$341	$347

To effectively implement Merchandising's logistics strategy, Terminal Freight Handling Company, a wholly-owned subsidiary of Sears doing business as Sears Logistics Services ("SLS"), provides specialized distribution, transportation and home delivery services, primarily for Merchandising and also for other customers. SLS' strategy includes expanded marketing to diversify and increase its current customer base through the range of logistics services as well as more efficient customer-oriented performance of existing services.

As of December 31, 1991, SLS owned and operated three catalog merchandise centers, three retail replenishment centers, two direct delivery centers and 35 other distribution facilities (cross dock centers and terminals). Three other catalog merchandise centers and two cross dock centers were operated and substantially owned (except for the most recent building additions which are leased) by SLS. An additional five retail replenishment centers, four direct delivery centers (operated by third parties), four furniture consolidation centers (operated by third parties), and 19 other distribution facilities (consisting of cross dock centers, four of which are operated by third parties, and terminals) were leased for terms ranging from one to 40 years. All of the terminals are scheduled to close by the summer of 1992.

One SLS retail replenishment center and additions to three catalog merchandise distribution centers were operated pursuant to sale and lease-back arrangements for primary terms of 25 years with renewal options for an additional 30 or 40 years and a fair market value purchase option at the end of the primary terms, and at certain other times. These facilities have been constructed on land owned by the Company which has been leased to the lessors of the facilities for initial terms of 25 years, with renewal options which extend 10 to 20 years beyond those in the leases to the Company.

To continue the restructuring of distribution operations begun in 1987, in 1991 the Washington, D.C. cross dock center was closed and the closing of the Los Angeles, California, catalog merchandise center in early 1992 was announced. Also announced were the openings of new retail replenishment centers in Delano, California and near Wilkes-Barre, Pennsylvania, which will replace retail replenishment centers in Los Angeles, California, and Philadelphia, Pennsylvania.

In addition to the SLS distribution facilities, as of December 31, 1991, Merchandising owned and operated 47 warehouses, including seven major distribution warehouses. An additional 131 warehouses, none of which were major distribution warehouses, were leased for terms ranging from one to 99 years.

Trademarks

The name "SEARS" is used extensively in the Company's Merchandising and other businesses in the United States and throughout the world. The Company's right to the name "SEARS" continues so long as it uses the name. The name is also the subject of numerous renewable United States and foreign trademark and service mark registrations. This trade and service mark is material to the Company's Merchandising and other related businesses in the United States and throughout the world.

Competition

The domestic retail merchandise business is highly competitive. Quality, price, style, customer service, brand names, credit availability, delivery time and repair service, as well as the convenience of shopping facilities to customers, are the principal means of competition in the

industry. The Merchandise Group believes it is able to compete in every respect despite strong competitive pressures in recent years; however, on average, the Merchandise Group's ratio of selling, general and administrative expense to revenues is higher than that of its competitors. Cost reduction programs reduced the Merchandise Group's ratio of selling, general and administrative expenses to revenues for 1991 compared to 1990, and efforts to increase revenues and cut costs are continuing. See "Merchandising" above and "Cost Reduction Programs" below and "Analysis of Consolidated Operations" and Sears Merchandise Group "Analysis of Operations" beginning on pages 14 and 29, respectively, of the Company's 1991 Annual Report, incorporated herein by reference to Item 7 hereof.

Credit

Credit initiates and maintains, in the United States, customer credit accounts generated by Merchandising.

Sales made on a revolving and installment credit basis (excluding finance charges) amounted to 57.3%, 59.2% and 58.7% of gross sales of Merchandising for 1991, 1990 and 1989, respectively. Based on current experience, approximately 7.7% of the amount of total credit balances is liquidated each month.

As of December 31, 1991, Credit had approximately 27.5 million active customer credit accounts. These accounts had an average balance of $736, for a total of $20.25 billion of retail customer receivables before sales of account balances. Sears has an ongoing program pursuant to which a portion of such accounts receivable has been sold through Sears Receivables Financing Group, Inc., a wholly-owned subsidiary, to trusts that issue credit account pass-through certificates to public and private investors. Pursuant to contractual agreements, Sears remains the servicer on the accounts creating the receivables and receives a fee for the services performed. See Sears Merchandise Group "Analysis of Operations - Credit operations," beginning on page 30 of the Company's 1991 Annual Report, incorporated herein by reference in response to Item 7 hereof.

From time to time, competitive conditions and federal and state legislation may affect credit card interest rates. While the Company cannot predict the effect of future competitive conditions and legislation or the measures which the Company might take in response thereto, a significant reduction in the interest rates charged by Credit could have an adverse effect on the Company.

Credit employs approximately 12,500 full and part-time employees.

International

Canada and Mexico

The Sears Merchandise Group conducts retail merchandise and credit operations in Canada through Sears Canada Inc., a consolidated, 62.6% owned subsidiary of Sears ("Sears Canada") and in Mexico through a consolidated, 75% owned subsidiary ("Sears Mexico"). Sears Mexico was a wholly-owned subsidiary until March 23, 1992, when Sears sold an aggregate of 16,500,000 shares of Sears Mexico's common stock in a public offering in Mexico, an offering in the United States to qualified institutional buyers and an offering outside the United States and Mexico for net proceeds of approximately $120 million, and Sears Mexico sold 2,250,000 shares of its common stock in the public offering in Mexico for net proceeds of approximately $16 million.

Sears Canada operates 1,722 stores, including 106 department stores, 15 clearance centers, and six specialty stores, as well as 1,595 catalog sales offices, and has 49 warehouses. During 1991, Sears Canada opened 10 new retail stores, including 2 in new markets, seven in under-penetrated sectors of existing markets and one representing a relocation of an existing store. As a result of the relocation, one store was closed during the year. Sears Canada is the single largest national department store chain in Canada. A new Sears Canada catalog merchandise service center in Belleville, Ontario, with a modernized distribution system, will be fully operational in the spring of 1992 and replaces three smaller catalog service facilities. Sears Canada is continuing the development and implementation of an integrated catalog information system. Sears Canada also plans to open three full line department stores in 1992.

Sears Canada has an ongoing program pursuant to which an undivided co-ownership interest in its pool of credit card receivables is sold to a trust which issues senior debt, subordinated debt and trust units (representing the residual equity interest in the trust) to public and private investors. Pursuant to contractual relationships, Sears Canada remains the servicer on the accounts creating the receivables, but receives no separate fee from the investors for such servicing. See Sears Merchandise Group "Analysis of Financial Condition" on page 32 of the Company's 1991 Annual Report, incorporated herein by reference in response to Item 7 hereof.

Approximately 48,500 full and part-time employees were employed by Sears Canada as of December 31, 1991.

Thirty-three department stores, seven satellite stores and 19 warehouses were operated by Sears Mexico. During 1991, five new retail stores were opened, including three in new locations. One store was remodeled in 1991, and no stores were closed. Sears Mexico plans to open three department stores in 1992.

Approximately 8,600 full and part-time employees were employed by Sears Mexico as of December 31, 1991.

Tires Plus Co., Ltd.

In January 1990, Sears entered into a joint venture with the Saison Group, a Japanese conglomerate, to form Tires Plus Co., Ltd. ("Tires Plus"), to provide automotive aftermarket goods and services in Japan. Sears owns approximately 50% of Tires Plus. As of December 31, 1991, Tires Plus operated three automotive service centers.

Cost Reduction Programs

The Company initiated cost reduction programs in 1990 intended to eliminate a total of approximately 33,000 full- and part-time positions. Major elements of the cost reduction programs included: the streamlining of support operations and the relocation of clerical activities in the stores into one area, with store space previously devoted to sales support reclaimed for selling activities; realignment of the regional service organization, improved productivity and closed facilities in Merchandising's Product Services; improved productivity and restructuring of the distribution and transportation network in Merchandising's logistics operations; the conversion of more than 223 company-owned catalog sales offices to independently-owned and operated catalog sales merchants and reductions in catalog home office activities; a reduction in the number of administrative and sales support positions at Sears Canada; the continued consolidation of Merchandising's retail accounting and processing centers; a reduction in the number of positions

in Corporate and Merchandise Group headquarters activities, partially as a result of combining staff functions; closure of the 47 free-standing McKids stores; and implementation of a one-year salary freeze for salaried employees in the Merchandise Group and the Company's Corporate operations. These programs were completed by year-end 1991. For further information, see "Analysis of Consolidated Operations" and Sears Merchandise Group "Analysis of Operations," beginning on pages 14 and 29, respectively, of the Company's 1991 Annual Report, incorporated herein by reference in response to Item 7 hereof.

During 1992, the Merchandise Group will continue its efforts to more properly align its organizational structure, improve responsiveness and customer service, increase revenues and cut costs. Custom-designed point-of-sale terminals and automated customer-service "mini" kiosks will be installed in Merchandising's department stores which will result in the elimination of about 1,000 full-time non-sales positions and 5,900 part-time clerical positions. A reorganization of the field management structure by closing Merchandising's ten regional offices and 26 of Merchandising's 72 district units by mid-April, 1992, with responsibilities of the remaining 46 districts strengthened to include customer service, revenue growth, teamwork, employee development and training, store presentation, inventory productivity and facilities management, will result in the elimination of about 600 positions. A transfer of the inventory replenishment function from the field organization to headquarters has begun, with completion scheduled for early 1993. Compensation programs for some of Merchandising's employees who sell merchandise on commission will be standardized, designed to be more in line with the competition, and costly and non-competitive policies in some areas, such as overtime, commission rates, and scheduling, will be changed. In addition, a benchmarking study of competitive practices to determine the best organizational structure for Merchandising's headquarters staff and various field staff offices has also been announced. Although the impact of the study cannot be estimated, it is expected that it will result in job reductions in 1992.

ALLSTATE INSURANCE GROUP

The Allstate Insurance Group ("Allstate") is engaged (principally in the United States and Canada and primarily through agents working exclusively for Allstate) in property-liability insurance and life insurance. Allstate writes a broad range of insurance for individuals, businesses and other organizations, and is also a reinsurer. Allstate has announced that it plans to sell its Canadian operations. See "Geographic Distribution of Insurance."

Property-Liability Insurance

For 1991, passenger auto insurance accounted for approximately 72.3% of property-liability insurance premiums earned, and homeowners' multiple peril insurance accounted for approximately 16.4%. All other property-liability insurance lines combined (none of which accounted for as much as 4% of insurance premiums earned) accounted for approximately 11.3% of property-liability insurance premiums earned.

Information regarding the general legislative and regulatory environment for property-liability insurers is set forth in the first two paragraphs on page 35 of the Allstate Insurance Group "Analysis of Operations" beginning on page 34 of the Company's 1991 Annual Report, incorporated herein by reference in response to Items 7 and 8 hereof.

The table on the following page illustrates the change through time of reserves established for property-liability claims and claims expense at the end of various calendar years. The first line shows the reserves as originally reported at the end of the stated year. The second section, reading down, shows the cumulative amounts paid as of the end of successive years with respect to that reserve liability. The third section, reading down, shows retroactive reestimates of the original recorded reserve as of the end of each successive year which is the result of Allstate's expanded awareness of additional facts and circumstances that pertain to the unsettled claims. The last section compares the latest reestimated reserve to the reserve amount as originally established and indicates whether or not the original recorded amount was adequate or inadequate to cover the estimated costs of unsettled claims.

The table on the following page is cumulative and, therefore, ending balances should not be added since the amount at the end of each calendar year includes activity for both the current and prior years. Information with respect to accident years may also be derived from the table on the following page.

The reserve for claims and claims expense is an accumulation of the estimated amounts necessary to settle all outstanding claims as of the date for which the reserve is stated. The data shown have been reduced for estimated subrogation and salvage recoveries. The reserve estimates are based upon the facts in each case and Allstate's experience with similar cases. Consideration is given to historical trends for such things as disposition patterns, loss payments, pending levels of unpaid claims and product mix. In addition, court decisions, economic conditions, and public attitudes impact the estimation of reserves and the ultimate cost of claims. No attempt is made to isolate the impact of inflation from the multitude of factors influencing the reserve estimates. Allstate continually updates its reserve forecasts by type of claim as new facts become known and events occur which impact unsettled claims. Allstate does not discount its reserves for unpaid claims and claims expense.

($ millions)

	December 31										
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Reserve for Unpaid Claims and Claims Expense	$4,018	$4,457	$4,863	$5,275	$5,804	$6,664	$7,865	$9,001	$10,029	$11,210	$12,212
Paid (Cumulative) as of:											
One Year Later	1,515	1,707	1,915	1,839	2,445	2,758	3,184	3,611	4,349	4,594	
Two Years Later	2,298	2,531	2,852	3,180	3,644	4,110	4,727	5,361	6,404		
Three Years Later	2,771	3,076	3,449	3,863	4,406	4,957	5,682	6,518			
Four Years Later	3,105	3,426	3,868	4,316	4,912	5,524	6,352				
Five Years Later	3,326	3,697	4,151	4,642	5,269	5,930					
Six Years Later	3,511	3,888	4,386	4,890	5,544						
Seven Years Later	3,652	4,064	4,569	5,096							
Eight Years Later	3,794	4,206	4,731								
Nine Years Later	3,911	4,336									
Ten Years Later	4,027										
Reserve Reestimated as of:											
End of Year	4,018	4,457	4,863	5,275	5,804	6,664	7,865	9,001	10,029	11,210	12,212
One Year Later	4,014	4,297	4,713	5,188	6,007	6,941	7,958	8,996	10,401	11,428	
Two Years Later	3,906	4,230	4,720	5,373	6,259	7,038	7,995	9,108	10,693		
Three Years Later	3,857	4,265	4,893	5,611	6,387	7,120	8,115	9,414			
Four Years Later	3,931	4,427	5,133	5,778	6,480	7,235	8,423				
Five Years Later	4,075	4,651	5,307	5,886	6,603	7,524					
Six Years Later	4,266	4,827	5,415	6,021	6,887						
Seven Years Later	4,441	4,930	5,547	6,285							
Eight Years Later	4,553	5,049	5,785								
Nine Years Later	4,664	5,279									
Ten Years Later	4,873										
Initial reserve (less than) reestimated reserve:											
Amount	$(855)	$(822)	$(922)	$(1,010)	$(1,083)	$(860)	$(558)	$(413)	$(664)	$(218)	
Percent	(21.3)	(18.4)	(19.0)	(19.1)	(18.7)	(12.9)	(7.1)	(4.6)	(6.6)	(1.9)	

The 1989 and 1990 loss reserve developments have been restated to exclude the claims and claims expense incurred by the British reinsurance subsidiary. The required information is not consistently available from the subsidiary because of the accounting methods employed by the London reinsurance market.

As the table illustrates, Allstate's reserves for claims and claims expenses at the end of 1990 developed unfavorably in 1991 by $218 million, which represents 1.9% of the initial reserve balance. A significant portion of the development is from claims for accident years prior to 1980 and is predominantly related to environmental impairment, specifically asbestos and toxic waste. Allstate subsequently withdrew from these lines of business. The ultimate cost of these claims is difficult to predict, especially since claims may not be reported for several years after the policy year. Reserving in the early 1980's was influenced by double-digit increases in claim costs that at the time

gave little indication of abatement. However, over time, Accident Years 1981 through 1988 have developed favorably.

The following table is a summary reconciliation of the beginning and ending property-liability insurance claims and claims expense reserve, displayed individually for each of the last three years. The total claims and claims expense figure and the end of year reserve balance are reflected on the Allstate Insurance Group Summarized Statements of Income and Statements of Financial Position, respectively, on pages 34 and 36 of the Company's 1991 Annual Report, incorporated herein by reference in response to Item 8 hereof.

	Year ended December 31		
	1989	1990	1991
		(in millions)	
Reserve for claims and claims expense, beginning of year	$9,110	$10,162	$11,376
Claims and claims expense			
Provision attributable to the current year	10,794	11,727	12,252
Increase (decrease) in provision attributable to prior years	(5)	372	218
British reinsurance subsidiary	85	100	105
Total claims and claims expense	10,874	12,199	12,575
Payments			
Claims and claims expense attributable to current year	6,150	6,569	6,874
Claims and claims expense attributable to prior years	3,611	4,349	4,594
British reinsurance subsidiary	61	67	57
Total payments	9,822	10,985	11,525
Total reserve for claims and claims expense, end of year	10,162	11,376	12,426
Less: British reinsurance subsidiary, end of year reserves	133	166	214
Reserve for claims and claims expense, end of year - United States and Canada	$10,029	$11,210	$12,212

At year-end 1991, the reserve for property-liability insurance claims and claims expense shown in the above table was $167.2 million more than the reserve balance recorded on the basis of statutory accounting principles for reports provided to state regulatory authorities. The principal differences are the accrual for subrogation and salvage recoverable, which for state regulatory purposes is not recorded until it is received, and the reserves of the Canadian and British subsidiaries which are not

included in the consolidated United States statutory statement.

Life Insurance

Life insurance in force was $109.7 billion at December 31, 1991 and $95.9 billion at December 31, 1990. Allstate focuses on individual life insurance, annuity and pension products, and direct response marketing.

Geographic Distribution of Insurance

Except as noted below in regard to Massachusetts, the Allstate Insurance Group, through a variety of companies, is authorized to sell property-liability and life insurance in all 50 states, the District of Columbia, Puerto Rico and Canada. To a limited extent, the Allstate Insurance Group is engaged, through affiliates, in the insurance business in Japan and the Republic of Korea and is a worldwide reinsurer. The following tabulation reflects, in percentages, the principal geographic distribution of statutory premiums earned for the property-liability insurance business and statutory premium income for the life insurance business for the year ended December 31, 1991:

	CA	NY	FL	TX	IL	PA	NJ	TOTAL
Property-Liability	14.9	11.8	9.3	4.9	4.7	4.2	3.4	53.2
Life	15.1	2.5	6.6	5.5	5.5	5.1	13.1	53.4

No other jurisdiction accounted for as much as 3% of the combined statutory premiums for property-liability and life insurance. For the year ended December 31, 1991, the jurisdictions listed above, together with Michigan, Canada and Georgia, accounted for 62.2% of property-liability statutory premiums earned and 60.4% of life insurance statutory premium income.

Except as to two companies which engage in mortgage insurance and reinsurance, the Allstate Insurance Group has not written or renewed any property-liability policies in Massachusetts since June 30, 1989 and has not taken any action to renew the related property-liability licenses, which expired by their terms on that date. The Massachusetts Division of Insurance contends that the Allstate Insurance Group has not met certain unspecified obligations necessary to terminate the related property-liability licenses, and has indicated that it may initiate proceedings which could result in the revocation of the life licenses of the Allstate Insurance Group in Massachusetts. The Allstate Insurance Group believes that it has substantially complied with all material obligations necessary to terminate such property-liability licenses. See note 4 of the Allstate Insurance Group Notes to Summarized Financial Statements on page 39 of the Company's 1991 Annual Report, incorporated herein by reference to Item 8 hereof.

In September 1991, the Allstate Insurance Group filed with the New Jersey Insurance Commissioner a plan for the gradual and orderly withdrawal from the property-liability insurance market in New Jersey over a period of time that could extend beyond 1996. For further information, see the third paragraph on page 35 of the Allstate Insurance Group "Analysis of Operations" beginning on page 34 of the Company's 1991 Annual Report, incorporated herein by reference to Item 7 hereof.

In addition, in January 1992, the Allstate Insurance Group announced that it plans to sell its

Canadian operations. The Canadian operations contributed less than 3% of the Allstate Insurance Group's total revenues for 1991.

Seasonality

Although the insurance business generally is not seasonal, claims and claims expense for the property-liability insurance operations tend to be higher for periods of inclement weather.

Employees

At December 31, 1991, the Allstate Insurance Group employed approximately 54,800 people, including approximately 15,400 full-time agents. In addition, approximately 56,000 non-employee producers represented the Allstate Insurance Group for certain of its insurance products in geographic areas or in market segments not served by full-time agents. Reinsurance is acquired largely through independent brokers. At December 31, 1991, there were approximately 39,400 employees who handled claim services, underwriting and policy services, investment management and administrative matters.

Properties

The home office of Allstate Insurance Group is located in Northbrook, Illinois. The Allstate companies' business operations are conducted substantially from 49 property-liability offices and five life offices located principally in metropolitan areas throughout the United States and in Canada. The companies also have 325 claim service offices, sales facilities at approximately 9,580 locations (of which 470 are in Sears stores and sales offices), and 745 automobile damage inspection locations, most of which are located at claim service offices and sales facilities.

The home office of the Allstate Insurance Group and most major offices are owned. Other facilities (except those located at Sears stores and sales offices) are leased, in almost all cases for terms of not more than five years.

Trademarks

The name "ALLSTATE" is used extensively in the Company's businesses, and is the subject of two renewable United States service mark registrations covering the word "Allstate" and the Allstate logotype. The slogan "You're in Good Hands With Allstate" and the graphic representation of the slogan, the "Good Hands" symbol, are also used extensively and are the subject of renewable United States service mark registrations. Allstate's rights in the United States to the name "ALLSTATE", the Allstate logotype, the "Good Hands" slogan and the "Good Hands" symbol continue so long as Allstate continues to exercise those rights. These service marks are material to the business of the Allstate Insurance Group.

Competition

The Allstate Insurance Group is engaged in a highly competitive industry in which price competition continues to be very strong. Allstate's property-liability insurance operations rank second on the basis of statutory premiums earned among the nation's property-liability insurers. At year-end 1990, the last period for which figures were available, Allstate's life insurance operations ranked thirteenth among domestic life insurance companies based upon statutory premium income. Service, reputation and price are the principal methods of competition in the insurance industry.

DEAN WITTER FINANCIAL SERVICES GROUP

The Dean Witter Financial Services Group ("DWFSG") provides a broad range of securities and credit products and services to individual and institutional customers. Dean Witter Financial Services Group Inc. ("DWFSGI") is a wholly-owned subsidiary of Sears, Roebuck and Co.

Securities activities

Securities activities are conducted through Dean Witter Reynolds Inc. ("DWR"), one of the largest registered broker-dealers in the United States, servicing approximately 2.3 million individual and institutional accounts, and other consolidated subsidiaries of DWFSGI. DWR is a member of every major securities, futures and options exchange in the United States. Securities activities consist of customer securities financing (including margin lending); securities, futures and options brokerage; asset management; investment banking and underwriting; and securities trading. DWR is a major broker-dealer in securities, options and futures and a distributor of mutual funds and annuity products, including a number of Allstate products.

Interest Revenue. Interest revenue accounted for 20.3% of 1991 Securities revenue. This revenue was derived primarily from interest on repurchase transactions, client margin accounts and owned securities. DWR's daily trading inventories of U.S. government and agency securities are financed through the use of repurchase agreements and other short-term borrowings. Customer securities transactions are effected either on a cash or margin basis. At December 31, 1991, DWR had approximately $1.5 billion of margin loans outstanding to its clients.

Securities and Futures Brokerage Services. Commissions from brokerage transactions for listed equity securities, listed options, commodities, mutual funds and over-the-counter securities accounted for 27.9% of 1991 Securities revenue. DWR acts as a broker and futures commission merchant in futures and options transactions for virtually all types of exchange traded futures. DWR also sponsors commodity fund limited partnerships. DWFSGI foreign subsidiaries also act as brokers in securities transactions and in transactions effected on foreign commodity futures exchanges.

Asset Management. DWR, through its InterCapital Division, acts as investment manager or administrator for a number of DWR sponsored registered investment companies. In addition, DWR renders investment advisory services to institutional and individual clients and to employee benefit plans and endowment funds. Revenue from asset management activities contributes a certain degree of stability to the earnings of DWR as it is based primarily on assets under management rather than the volume of securities transactions effected by DWR. As of December 31, 1991, the market value of assets under management by DWR's InterCapital Division, including 55 investment companies and other portfolios, was $49.0 billion. Asset management revenue constituted 20.6% of Securities revenue for 1991.

In early 1992, DWR and TCW Management Company, an affiliate of Trust Company of the West, entered into an agreement for the purpose of creating, managing, administering and distributing a family of investment companies and other managed pooled investment vehicles which will be offered on a retail basis within the United States. DWFSG will provide administrative and distribution services and affiliates of TCW Management Company will provide investment advisory services.

Dean Witter Trust Company, a wholly-owned subsidiary of DWFSGI organized as a New

Jersey trust company, acts as registrar and transfer agent for all DWR sponsored investment companies and offers various personal trust services.

Investment Banking. Investment banking revenue accounted for 7.9% of 1991 Securities revenue. DWR is an underwriter of corporate and municipal securities and also serves as a financial advisor to corporations, states and local governmental units regarding a wide range of financial transactions, including mergers and acquisitions, appraisals of fair value, leasing, special project financing and the issuance of securities.

Dean Witter Realty Inc., a wholly-owned subsidiary of DWFSGI, and its subsidiaries operate a diversified real estate investment and management business. Dean Witter Realty and its subsidiaries organize and manage both public and non-public limited partnerships.

Through Dean Witter Capital Corporation, a wholly-owned subsidiary of DWFSGI, DWFSG engages in merchant banking activities. Merchant banking involves acquiring equity interests in leveraged buy-out and other transactions and facilitating mergers and acquisitions by offering short-term financing and facilitating the underwriting or the refinancing of acquisition debt or equity securities.

Securities Trading. Securities trading revenue accounted for 18.4% of 1991 Securities revenue. DWR acts as a market-maker in fixed-income and equity securities. It buys and sells securities for its own account in transactions with institutional and individual customers as well as other dealers. DWR is a primary dealer in United States Government securities and makes secondary markets in Treasury and agency securities. At December 31, 1991, DWR was a market-maker in 1,047 over-the-counter equity securities traded on the National Association of Securities Dealers Automated Quotation System (NASDAQ). DWR also executes transactions in both listed and unlisted options and equity securities and often acts as principal to facilitate these transactions.

Dean Witter Puerto Rico Inc., a subsidiary of DWR organized under the laws of the Commonwealth of Puerto Rico, also acts as a dealer in fixed-income securities and engages in repurchase transactions and municipal finance activities in Puerto Rico.

Credit Services activities

Credit Services activities are conducted by Sears Consumer Financial Corporation ("SCFC"), a wholly-owned subsidiary of DWFSGI, and its subsidiaries. Revenues from Credit Services activities for 1991 (broken down by type of activity) were: credit card services, 93.7%; and consumer finance services, 6.3%.

Greenwood Trust Company ("Greenwood"), a wholly-owned subsidiary of SCFC, is a Delaware bank, the deposits of which are insured by the Federal Deposit Insurance Corporation ("FDIC"), and is not a member of the Federal Reserve System. It is engaged in the consumer banking business but does not engage in the business of making commercial loans.

Greenwood is the primary issuer of the Discover Card, which is a general-purpose credit and financial services card in competition with other bank credit cards and travel and entertainment cards and a vehicle for delivery of various financial services. As of December 31, 1991, there were approximately 26.5 million Discover Card accounts with approximately 41.2 million Cardmembers. Greenwood is also the issuer of the Discover Card Private Issue, an enhanced-feature version of the Discover Card for which there is an annual membership fee. Discover Services Corporation, a

wholly-owned subsidiary of SCFC, issues a limited number of Discover Card Corporate Cards used exclusively by employees of Sears and its subsidiaries.

At December 31, 1991, Discover Card was accepted at approximately 1.4 million service establishment locations, including Sears. Discover Cardmembers can also use their cards to obtain cash advances at Sears stores, and through, at year-end, approximately 36,000 automated teller machines, and at certain other locations throughout the United States pursuant to contractual arrangements. Cash advances can also be obtained by means of checks drawn by Cardmembers against their accounts.

Discover Card is distinguished from other bank credit cards by a combination of features which, in general, include no annual membership fee (except in the states of North Carolina and Wisconsin, where the fee is $15 per year); a Cashback Bonus, which pays Cardmembers a percentage of their purchase amounts, ranging up to one percent, based on their annual purchases; the Discover Saver's Account, an FDIC-insured money market deposit account issued by Greenwood with a tiered interest rate structure that rewards higher balances with higher yields; Discover CD's, FDIC-insured certificates of deposit issued by Greenwood with maturities of three months to 5 years; and cash advances with a grace period for Cardmembers who repay their balance every month.

Greenwood has an ongoing program pursuant to which a portion of its Discover Card receivables has been sold through Discover Receivables Financing Corporation ("DRFC") and Discover Receivables Financing Group, Inc. ("DRFG") to trusts that issue credit card pass-through certificates to public and private investors. Pursuant to contractual arrangements, Greenwood remains the servicer on the accounts giving rise to the receivables and receives a fee for the services performed. DRFC and DRFG are Delaware corporations and wholly-owned subsidiaries of SCFC Receivables Corp. ("SRC"), a wholly-owned subsidiary of SCFC. DRFC's and DRFG's executive offices are located in New Castle, Delaware. See Dean Witter Financial Services Group "Analysis of Operations - Credit Services," beginning on page 41 of the Company's 1991 Annual Report, incorporated herein by reference in response to Item 7 hereof.

Discover Card Services, Inc., a wholly-owned subsidiary of SCFC, performs on behalf of Greenwood and Discover Services Corporation various functions for the Discover Card, including contracting with merchants and service establishments to accept the Discover Card. Discover Card Services, Inc. has operations centers in Columbus, Ohio, Sandy, Utah, and Scottsdale, Arizona.

Discover Card Bank of New Castle ("Discover Card Bank"), a wholly-owned subsidiary of SCFC, is a Delaware bank, the deposits of which are insured by the FDIC, and is not a member of the Federal Reserve System. Discover Card Bank is engaged only in consumer credit card operations.

SPS Transaction Services, Inc., a consolidated, 74.3% owned subsidiary of SCFC organized in October 1991 to carry on the business of its two wholly-owned subsidiaries, SPS Payment Systems, Inc. and Hurley State Bank, was a wholly-owned subsidiary of SCFC until March 3, 1992, when SPS Transaction Services, Inc. sold 3,450,000 shares of its common stock in a public offering for net proceeds of approximately $50 million.

SPS Payment Systems, Inc. is engaged in the transaction processing business in which it provides network services, private label credit card processing, remittance processing and related financial services to commercial customers. SPS Payment Systems, Inc. has operations centers

in Gray, Tennessee, Sioux Falls, South Dakota and Layton, Utah.

Hurley State Bank is a South Dakota bank, the deposits of which are insured by the FDIC, and is not a member of the Federal Reserve System. Hurley State Bank is engaged only in consumer credit card operations. It issues private label credit cards pursuant to arrangements entered into with retailers. Hurley State Bank has an ongoing program pursuant to which a substantial portion of its private label credit card receivables has been sold to a private investor. Pursuant to contractual arrangements, SPS Payment Systems, Inc. acts as a recourse party for the sold interests and as the servicer on the accounts giving rise to the receivables and receives a fee for the services performed, and DWFSGI has guaranteed SPS Payment Systems, Inc.'s obligations as a recourse party.

SCFC ILC Inc., a wholly-owned subsidiary of SCFC doing business as MountainWest Financial ("MountainWest Financial"), is a Utah industrial loan corporation, the deposits of which are insured by the FDIC, and is not a member of the Federal Reserve System. On May 25, 1990, MountainWest Financial purchased the business, including the Visa U.S.A. Inc. membership, of MountainWest Savings and Loan Association, a federally-insured savings and loan located in Utah. MountainWest Financial engages primarily in the issuance of credit cards, including both VISA credit cards and private label credit cards pursuant to arrangements entered into with retailers. MountainWest Financial has plans to expand its existing VISA card program by introducing a new and widely-marketed VISA card, which would offer consumers innovative terms, to be marketed under the name "Prime Option." Visa U.S.A. Inc. has refused to authorize the production of additional VISA credit cards for the Prime Option program and asserted that Visa U.S.A. Inc.'s by-laws prohibit MountainWest Financial from issuing VISA cards. MountainWest Financial's plans to expand its VISA card program have been postponed pending the outcome of litigation originally initiated by it against VISA U.S.A. Inc.

The Lending Services Division of SCFC engages in the business of making various types of consumer loans, including auto, boat, recreational vehicle and home equity loans, and has operations centers in Irvine, California, Riverwoods, Illinois, Murray Hill, New Jersey and Sioux Falls, South Dakota.

SCFC Receivables Financing Corporation ("SCFCRFC") is a Delaware corporation and a wholly-owned subsidiary of SCFC. The principal executive offices of SCFCRFC are located in New Castle, Delaware. Through SCFCRFC, SCFC sells receivables originated by SCFC or its subsidiaries. SCFCRFC has sold receivables representing (i) home equity loans secured by second mortgages on one to four family residential properties, (ii) motor vehicle retail installment sales contracts and installment loans and (iii) recreational vehicle retail installment sales contracts and installment loans.

Employees

DWFSG companies employ approximately 24,700 people, including more than 6,600 account executives.

Properties

DWFSGI maintains executive offices in New York, New York. DWR maintains executive offices in New York, New York, 340 sales office locations throughout the United States, and 69 additional sales locations in Sears stores. Companies which are part of the Securities activities also

maintain offices in five cities in four other countries around the world. All of these offices are leased for terms of one to 20 years.

Greenwood leases its main office location in New Castle, Delaware, and operates branches in owned premises in Greenwood, Delaware and leased premises in Dover, Delaware. Discover Card Bank operates from one location, which is leased, in New Castle, Delaware. Hurley State Bank operates from one location, which is leased, in Sioux Falls, South Dakota. SCFC owns, and operates from, an office building in Riverwoods, Illinois. Discover Card Services, Inc., Discover Services Corporation, SPS Transaction Services, Inc. and SPS Payment Systems, Inc. executive offices are also located in Riverwoods, Illinois. MountainWest Financial leases its main office location in Sandy, Utah.

Trademarks

The name "DEAN WITTER REYNOLDS" is used extensively in securities activities and is the subject of a renewable United States service mark registration. The rights of DWR in the United States to this name continue so long as it uses the name. The service mark "DISCOVER" is used extensively by the DWFSG Credit Services businesses, most significantly as the name of its financial services card. It is the subject of several United States and foreign trademark and service mark registrations and pending applications. The rights of DWFSG in the United States to this name continue so long as it uses the name. These service marks are material to the respective businesses of DWFSG to which they relate.

Competition and Regulation

DWFSG companies operate in highly competitive industries in which price, service and reputation are the principal means of competition.

DWR competes with other securities and futures brokers and investment banking firms in the financing and sale of securities and futures. DWFSG companies also compete with other financial services intermediaries, including banks, investment companies and insurance companies, in selling various investments and providing financial management services.

The business of DWR is subject to stringent regulation. DWR is registered with the Securities and Exchange Commission ("SEC"), each of the 50 states, the District of Columbia and the Commonwealth of Puerto Rico as a broker-dealer and is a member of the National Association of Securities Dealers, Inc., and all major United States securities, options and futures exchanges. DWR is registered with the Commodities Futures Trading Commission as a Futures Commission Merchant and is a member of the National Futures Association. DWR is also registered as an investment adviser under the Investment Advisers Act of 1940. Such regulation governs various matters, including but not limited to sales methods, record keeping and financial reporting requirements, regulatory capital requirements, trade practices and dealings with the public.

DWR is also a member of the Securities Investor Protection Corporation ("SIPC"), a federally chartered corporation created for the purpose of protecting clients of securities broker-dealers in the event of financial failure of an SIPC member firm.

Greenwood, Discover Card Bank, Hurley State Bank and MountainWest Financial compete with savings and loan associations and banks in deposit taking and lending. The Discover Card and the MountainWest Visa card compete directly with other bank-sponsored general purpose credit

cards and with travel and entertainment cards.

The deposits of Greenwood, Discover Card Bank, Hurley State Bank and MountainWest Financial are insured by the FDIC, an instrumentality of the United States Government. Each institution is subject to comprehensive regulation, examination and supervision by the state banking commissioner of the state in which it is located and the FDIC.

From time to time, competitive conditions and federal and state legislation may affect credit card interest rates. While the Company cannot predict the effect of future competitive conditions and legislation or the measures which the Company might take in response thereto, a significant reduction in the interest rates charged by DWFSG's Credit Services operations could have an adverse effect on the Company.

The Lending Services Division of SCFC is qualified to do business in all 50 states and competes with banking institutions and finance companies. The Lending Services Division is subject to regulation by state regulatory agencies in states where it must be licensed to offer its loans.

SPS Payment Systems, Inc. competes with other providers of transaction processing services, including banks and bank service companies.

Under the Competitive Equality Banking Act of 1987, Sears is permitted to retain ownership of Greenwood provided Sears and its subsidiaries remain in compliance with certain provisions of the Act. The Act limits the growth of the average asset base of an existing limited-service bank, such as Greenwood, for each twelve-month period ending September 30, to 7% of the bank's average asset base for the preceding twelve-month period. Discover Card Bank and Hurley State Bank, which operate as credit card banks under the Act, are not subject to the 7% asset growth cap, but are limited to engaging solely in credit card operations and are subject to certain other restrictions applicable to credit card banks under the Act. MountainWest Financial, which operates as an industrial loan company under the Act, is also not subject to the 7% growth cap; it may not accept demand deposits and is subject to certain other restrictions applicable to industrial loan companies under the Act.

The provisions of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 restructured the federal deposit insurance funds. This legislation also significantly increased assessment rates for deposit insurance premiums and prohibits undercapitalized banks from accepting deposits from third-party intermediaries.

Because of the many developments that have occurred, and continue to occur, in the financial services industry, and the possibility of industry changes resulting from legislative and regulatory action or judicial decisions, it is possible that changes will be necessary in the businesses conducted by DWFSG companies. The Company believes that viable alternatives are likely to exist for those DWFSG companies to continue to conduct their business in all material respects, regardless of the form of future developments.

COLDWELL BANKER REAL ESTATE GROUP

The Coldwell Banker Real Estate Group ("Coldwell Banker") acts as a broker in residential real estate, offers title, escrow and relocation services, conducts mortgage operations, originates, invests in and acts as a servicer of residential mortgage loans and develops, manages and invests in shopping centers, office buildings and community centers.

The Residential Group

Through its Residential Group, Coldwell Banker acts as agent in residential real estate transactions, representing others in the purchase and sale of single and multi-family residences. Residential operations were served by 479 company-owned offices as of December 31, 1991.

Coldwell Banker's Residential Affiliate program, through which franchisees may use the Coldwell Banker name, is available to selected independent real estate brokers, and consisted of 1,057 franchisees operating 1,447 offices in 50 states, Canada and Puerto Rico as of December 31, 1991.

The Residential Group also provides a residential referral service through Relocation 1, Inc. for its owned and affiliated brokers. An affiliated company, Coldwell Banker Relocation Services, Inc., assists transferred employees of client businesses in relocating, selling their former residences and buying homes in their new locations. The Residential Group also furnishes title and escrow services in selected markets.

The Mortgage Group

Sears Mortgage Corporation ("SMC"), a wholly-owned subsidiary, is a first mortgage lender on one to four unit residential real estate. SMC conducts lending operations out of 103 locations in 32 states, all of which are leased for periods of one month to seven years, with the average period being three years. SMC offers consumers a wide variety of mortgage products including fixed rate, adjustable rate and graduated payment mortgages. SMC is also involved in lending for local and state bond programs established to assist low income, first time home buyers. Generally, SMC sells the mortgage loans it originates in the secondary mortgage market, retaining the right, in a majority of cases, to service the loans for a fee.

Sears Mortgage Securities Corporation ("SMSC"), a wholly-owned subsidiary, is involved in the secondary mortgage market primarily through purchasing, pooling and selling mortgage loans. SMSC also acts as master servicer and originator of, and issues, mortgage pass-through certificates, collateralized mortgage obligations and loan participation pools. SMSC also has administrative responsibilities with respect to collateralized mortgage obligation securities and real estate mortgage investment conduit securities.

Sears Savings Bank ("SSB"), a wholly-owned subsidiary of Sears, Roebuck and Co., is a California chartered savings and loan which has a savings and loan operation in California and certain limited operations under an agency arrangement in Illinois. SSB's principal focus is the purchase of residential mortgages, primarily from SMC. SSB's deposits are insured by the FDIC's Savings Association Insurance Fund, an instrumentality of the United States Government. SSB had total assets of approximately $5.4 billion as of December 31, 1991.

Homart Development Co. and Homart Community Centers, Inc.

Homart Development Co. ("Homart"), a wholly-owned subsidiary, develops and manages shopping centers and office buildings. Homart Community Centers, Inc., a wholly-owned subsidiary, develops community centers. At December 31, 1991, Homart owned and operated 15 regional shopping centers, was a partner in joint ventures and limited partnerships that owned and operated 12 other centers, and managed eight centers for other owners. Homart also owned and operated 19 office buildings and was a partner in joint ventures that owned and operated two office buildings. Homart Community Centers, Inc. was the sole general partner in a limited partnership that owned one community center. Other commercial properties, including multi-use developments and community centers, are being developed by Homart and Homart Community Centers, Inc., and by joint ventures and limited partnerships in which they are partners. See note 2 of the Coldwell Banker Real Estate Group Notes to Summarized Financial Statements on page 47 of the Company's 1991 Annual Report, incorporated herein by reference in response to Item 8 hereof.

Seasonality

Residential real estate brokerage and mortgage operations are subject to irregular seasonal fluctuations. Historically, revenues from residential real estate brokerage are substantially greater in the spring and summer months.

Employees

At December 31, 1991, Coldwell Banker was composed of approximately 24,400 people, including approximately 17,900 real estate brokers and sales associates who are independent contractors. In addition, there were approximately 22,100 real estate brokers and sales associates for Coldwell Banker Residential Affiliates franchisees.

Properties

Coldwell Banker has executive offices in Chicago, Illinois and Los Angeles, California. Excluding Homart properties, independent franchised brokerage offices and residential referral offices, Coldwell Banker maintains approximately 580 offices (most of which are leased for terms ranging from one to 10 years).

Trademarks

The name "COLDWELL BANKER" is used extensively in Coldwell Banker's real estate business, and is the subject of a renewable United States service mark registration. The rights in the United States to this name continue so long as Coldwell Banker uses it. The use of this service mark is material to Coldwell Banker.

Competition and Regulation

The business of Coldwell Banker is highly competitive. Competition in the various real estate related services, including brokerage, mortgage services and property management, is based on price, reputation and service. Competition in the commercial property development business relates to securing of tenants, including major department stores for shopping centers (based primarily on location, rental rates and service) and site acquisition. Shopping center operation also involves competition for customers with other retail locations (based primarily on location, facilities, tenants

and advertising).

SSB competes with savings and loan associations and banks in deposit taking and purchasing residential mortgage loans for its portfolio. SSB is a member of the Federal Home Loan Bank System and is subject to comprehensive regulation, examination and supervision by the California Department of Savings and Loans, the Office of Thrift Supervision and the FDIC, including the regulatory capital requirements of the Office of Thrift Supervision and the FDIC. Sears is a "savings and loan holding company" under Section 408 of the National Housing Act, as amended, and, as such, is subject to Office of Thrift Supervision and FDIC regulations.

FINANCE SUBSIDIARIES

To meet certain capital requirements of its businesses, Sears borrows on a short-term basis through the issuance of notes to, and from time to time sells retail customer receivables balances to, Sears Roebuck Acceptance Corp. ("SRAC"), a wholly-owned finance subsidiary. SRAC obtains funds primarily from the issuance of commercial paper, demand basis borrowing agreements with bank trust departments, and the placement with bank trust departments of variable interest rate notes payable 13 months after demand. Sears and SRAC have also borrowed through Sears Overseas Finance N.V. ("SOFNV"), a wholly-owned international finance subsidiary, which has obtained funds from the issuance of long-term debt, primarily in Europe, in both dollars and foreign currencies.

The debt and related interest expense of SRAC and SOFNV is allocated to the business groups in the manner described in the sections entitled "Basis for assignment of debt" and "Debt and related interest expense," under "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements and the Sears Merchandise Group Notes to Summarized Financial Statements, respectively, and also in the Dean Witter Financial Services Group "Analysis of Financial Condition," on pages 21, 33, and 42, respectively, in the Company's 1991 Annual Report, incorporated herein by reference in response to Items 7 and 8 hereof.

Discover Credit Corp. ("DCC"), a wholly-owned finance subsidiary of Sears, borrows money and lends the proceeds of such borrowings to certain direct and indirect subsidiaries of Sears operating within DWFSG. DCC may also engage in financing certain direct and indirect subsidiaries of Coldwell Banker, and may also purchase accounts receivable from its borrowers from time to time. DCC obtains funds primarily from the issuance of commercial paper and medium-term notes, and may issue other debt instruments.

The debt and related interest expense of DCC is allocated primarily to DWFSG for the financing of Discover Card receivables and, in the first three quarters of 1991, to Coldwell Banker for funding of working capital requirements.

In addition, various direct and indirect subsidiaries of Sears have engaged in asset securitization or similar programs in which assets such as receivables and mortgage loans are sold in public or private transactions. See "Sears Merchandise Group - Credit," "Sears Merchandise Group - International - Canada and Mexico," "Dean Witter Financial Services Group - Credit Services activities," and "Coldwell Banker Real Estate Group - The Mortgage Group," beginning on pages 11, 11, 20, and 25, respectively.

Executive Officers of the Registrant

The following tabulation sets forth the names of the executive officers of the Company, the positions and offices with the Company held by them, the date they first became officers of the Company or a subsidiary of the Company, and their current ages:

Edward A. Brennan*	Chairman of the Board of Directors, President and Chief Executive Officer	1978	58
James M. Denny	Vice Chairman	1986	59
Edward M. Liddy	Senior Vice President and Chief Financial Officer and Acting Comptroller	1989	46
Charles F. Moran	Senior Vice President, Administration	1980	62
David Shute	Senior Vice President, General Counsel and Secretary	1981	61
Randolf H. Aires	Vice President, Governmental Affairs	1981	57
Charles A. Carlson	Vice President, Technology Services	1981	59
Edward J. Condon, Jr.	Vice President and Treasurer	1985	51
Warren F. Cooper	Vice President, Human Resources	1987	47
David P. Norum	Vice President, Taxes	1980	60
Richard T. Quinn	Vice President, Quality	1992	45
Charles J. Ruder	Vice President, Public Affairs	1985	54
Jane J. Thompson	Vice President, Planning	1988	40
Wayne E. Hedien	Chairman and Chief Executive Officer Allstate Insurance Group	1980	58
Arthur J. Hill	Chairman and Chief Executive Officer Coldwell Banker Real Estate Group	1985	52
Philip J. Purcell	Chairman and Chief Executive Officer Dean Witter Financial Services Group	1978	48

* Also a director of Sears, Roebuck and Co.

No family relationships exist among the above-named individuals.

Each of the officers named above was elected to serve in the office indicated until the first meeting of the Board of Directors following the annual meeting of shareholders in 1992 and until his or her successor is elected and qualified or until such officer reaches retirement age or resigns.

With the exception of Mr. Liddy and Ms. Thompson, these officers have held the positions set forth in the above tabulation for at least the last five years or have served the Company in various executive or administrative capacities for at least that length of time.

Mr. Liddy joined Sears Specialty Merchandising in April 1988. Prior to joining Sears he served from 1986 to 1988 as Executive Vice President and Chief Financial Officer of ADT, Inc.

Ms. Thompson joined Sears Specialty Merchandising in March 1988. Prior to joining Sears she was a partner with McKinsey & Company, Inc. (a management consulting firm) from 1978 to 1988.

Item 2. *Properties*

The Company owns Sears Tower in Chicago, Illinois, and Sears House in Washington, D.C. Sears Tower currently serves as corporate headquarters for Sears, Roebuck and Co. and as headquarters for the Merchandise Group. A facility is under construction on a site acquired by the Company for the Merchandise Group's headquarters and other development in Hoffman Estates, Illinois. The Company entered into a mortgage financing of, with separate options to purchase, Sears Tower and related properties, in 1990. The options to purchase the properties are exercisable in 2005 at a price reflective of market values at that time. The Company will continue to own the properties prior to the exercise of the options, and will share in any appreciation of the properties.

STS leases a facility which serves as its headquarters and a data processing and telecommunications center in Schaumburg, Illinois, and owns data processing centers in Dallas, Texas and Columbus, Ohio.

Information regarding other principal properties of the Company is incorporated herein by reference to the following portions of Item 1 hereof: Sears Merchandise Group (pages 7 - 10); Allstate Insurance Group (page 18); Dean Witter Financial Services Group (pages 22 and 23); and Coldwell Banker Real Estate Group (pages 25 and 26).

Item 3. *Legal Proceedings*

Various legal actions and governmental proceedings are pending against Sears and its subsidiaries, many involving ordinary routine litigation incidental to the businesses. Other matters contain allegations which are non-routine and involve compensatory, punitive or antitrust treble damage claims in very large amounts, as well as other types of relief. The consequences of these matters are not presently determinable but, in the opinion of management of the Company, the ultimate liability of the Company in excess of reserves currently recorded will not have a material effect on the shareholders' equity of the Company.

Item 4. *Submission of Matters to a Vote of Security Holders*

None

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

DESCRIPTION OF SEARS COMMON SHARES

The summary contained herein of certain provisions of the Restated Certificate of Incorporation, as amended (the "Certificate of Incorporation"), of Sears does not purport to be complete and is qualified in its entirety by reference to the provisions of such Certificate of Incorporation filed as Exhibit 3.(a) hereto and incorporated by reference herein.

The Certificate of Incorporation authorizes the issuance of 1,000,000,000 shares, par value $0.75 per share, and 50,000,000 preferred shares, par value $1.00 per share. As of March 10, 1992, 3,250,000 8.88% Preferred Shares, First Series (the "8.88% Preferred Shares") and 7,187,500 Series A Mandatorily Exchangeable Preferred Shares (the "Series A Preferred Shares"), were outstanding. Additional preferred shares may be issued in series with rights and privileges as authorized by the Board of Directors.

Subject to the restrictions on dividends mentioned below and the rights of the holders of the 8.88% Preferred Shares, the Series A Preferred Shares and any preferred shares which may hereafter be issued, each holder of common shares is entitled to one vote per share, to vote cumulatively for the election of directors, to dividends declared by the Board of Directors, and upon liquidation to share in the assets of Sears pro rata in accordance with his holdings after payment of all liabilities and obligations. The holders of common shares have no preemptive, redemption, subscription or conversion rights. Sears Board of Directors is divided into three classes serving staggered three-year terms. Because the Board is classified, shareholders wishing to exercise cumulative voting rights to assure the election of one or more directors must own approximately three times as many shares as would be required if the Board were not classified. Directors may be removed only for cause upon the affirmative vote of at least 75% of the shares entitled to vote. Such a vote is also required to alter, amend or repeal, or to adopt any provision inconsistent with, Article 5 of the Certificate of Incorporation concerning directors, or to fix the number of directors by shareholder vote. There are no restrictions on repurchases or redemption of shares by Sears which do not impair its capital, except for limitations under the terms of outstanding preferred shares and except that the indentures relating to certain of Sears long-term debt and an agreement pursuant to which Sears has provided a credit facility in support of certain tax increment revenue bonds issued by the Village of Hoffman Estates, Illinois, in connection with the construction of the new headquarters facility for Sears Merchandise Group provide that Sears will not take certain actions, including the declaration of cash dividends and the repurchase of shares, which would cause unencumbered assets plus certain capitalized rentals to drop below 150% of liabilities plus such capitalized rentals (as such terms are defined in the indentures and the agreement).

The amount by which such unencumbered assets plus capitalized rentals exceeds 150% of such liabilities plus capitalized rentals, as computed under certain of the indenture provisions and those of the credit facility agreement referred to above, is set forth in note 14 of the Notes to Consolidated Financial Statements on page 27 of the Company's 1991 Annual Report.

The 8.88% Preferred Shares and the Series A Preferred Shares rank on a parity with respect to dividend rights and rights upon dissolution.

The 8.88% Preferred Shares were sold in the form of depositary shares, each representing

a one-fourth interest in an 8.88% Preferred Share. In general, holders of the 8.88% Preferred Shares are entitled to (i) receive, when and as declared by the Board, cumulative cash dividends, payable quarterly, at a rate of 8.88% per annum on $100 per share, prior to payment of dividends on the common shares or the redemption, purchase or other acquisition for consideration of common shares by Sears and (ii) $100 per share, plus accrued and unpaid dividends, in the event of any dissolution of Sears, prior to any payment to the holders of the common shares. The 8.88% Preferred Shares may be redeemed, at Sears option, on or after November 9, 1996 or, in certain limited circumstances, prior to such date. Holders of the 8.88% Preferred Shares are not entitled to voting rights except in limited circumstances (generally voting together with the holders of the Series A Preferred Shares).

The Series A Preferred Shares were sold in the form of depositary shares, each representing a one-fourth interest in a Series A Preferred Share. In general, holders of the Series A Preferred Shares are entitled to (i) receive, when and as declared by the Board, cumulative cash dividends, payable quarterly, at a rate of $15.00 per annum, prior to payment of dividends on the common shares or the redemption, purchase or other acquisition for consideration of common shares by Sears and (ii) $172.00 per share, plus accrued and unpaid dividends, in the event of any dissolution of Sears, prior to any payment to the holders of the common shares. Prior to April 1, 1995, in general, (i) Sears may elect to exchange, in whole or in part, each outstanding Series A Preferred Share for (a) common shares having a market value initially equal to $257.00, and declining by $.018851 each day following February 27, 1992, to $237.13 on February 1, 1995, and equal to $236.00 thereafter, plus (b) accrued and unpaid dividends, and (ii) immediately prior to any merger or consolidation of Sears (other than with a wholly-owned subsidiary) that results in the conversion of the common shares into, exchange of the common shares for, or the right to receive, other securities or property, each outstanding Series A Preferred Share will be exchanged for (a) four common shares (subject to adjustment in certain circumstances), plus (b) accrued and unpaid dividends, plus (c) initially, $21.00, declining by $.018851 each day following February 27, 1992, to $1.13 on February 1, 1995, and zero thereafter. On April 1, 1995, each outstanding Series A Preferred Share will be required to be exchanged for four common shares (subject to adjustment in certain circumstances) plus accrued and unpaid dividends. Each holder of a Series A Preferred Share has the same voting rights as the holder of a common share (with the holders of the Series A Preferred Shares and the holders of the common shares generally voting together as one class). Holders of the Series A Preferred Shares also have certain additional voting rights (generally voting together with the holders of the 8.88% Preferred Shares) in limited circumstances.

Information regarding the principal market for Sears common shares, the number of shareholders, and the prices of, and dividends paid on, Sears common shares is incorporated herein by reference to the section headed "Common Stock Market Information and Dividend Highlights" on page 28 of the Company's 1991 Annual Report and to the information under the heading "Shareholders' equity - Dividend payments" contained in note 14 of the Notes to Consolidated Financial Statements on page 27 of the Company's 1991 Annual Report.

Item 6. Selected Financial Data

The material under the caption "Ten-Year Summary of Consolidated Financial Data" on pages 10 - 11 of the Company's 1991 Annual Report is incorporated herein by reference.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The information contained under the captions "Analysis of Consolidated Operations" on pages 14 and 15, "Analysis of Consolidated Financial Condition" on pages 17 and 19, Sears Merchandise Group - "Analysis of Operations" on pages 29 - 31, Sears Merchandise Group - "Analysis of Financial Condition" on page 32, Allstate Insurance Group - "Analysis of Operations" on pages 34 and 35, Allstate Insurance Group - "Analysis of Financial Condition" on pages 36 - 38, Dean Witter Financial Services Group - "Analysis of Operations" on pages 40 and 41, Dean Witter Financial Services Group - "Analysis of Financial Condition" on page 42, Coldwell Banker Real Estate Group - "Analysis of Operations" on pages 44 and 45, and Coldwell Banker Real Estate Group - "Analysis of Financial Condition" on page 46, of the Company's 1991 Annual Report is incorporated herein by reference.

Item 8. *Financial Statements and Supplementary Data*

The consolidated financial statements of the Company and the summarized financial statements related to the Company's four business groups, including the notes to all such statements, and other information on pages 10 - 48 (other than that incorporated by reference to Item 7 hereof) of the Company's 1991 Annual Report is incorporated herein by reference.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None

PART III

Item 10. Directors and Executive Officers of the Registrant

Certain information regarding directors of the Company (including certain information concerning their compliance with Section 16(a) of the Securities Exchange Act of 1934) is incorporated herein by reference to the descriptions under "Election of Directors" on pages 2 - 4 of the Company's 1992 Proxy Statement.

Information regarding executive officers of the Company (including certain information concerning their compliance with Section 16(a) of the Securities Exchange Act of 1934) is incorporated herein by reference to Item 1 of this Report under the caption "Executive Officers of the Registrant" on page 29 and to the description in note (b) on page 4 under "Election of Directors" in the Company's 1992 Proxy Statement.

Item 11. Executive Compensation

Information regarding executive compensation is incorporated by reference to the material under the captions "Election of Directors," "Further Information Concerning the Board of Directors," "Executive Compensation," "Benefit Plans" and "Employees Stock Plans" on pages 2 - 13 of the Company's 1992 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information regarding security ownership of certain beneficial owners and management is incorporated herein by reference to the material under the headings "Election of Directors" on pages 2 - 4 and "Benefit Plans - Security Ownership of Certain Beneficial Owners" on page 7, and in the first and third paragraphs under the heading "Benefit Plans - Profit Sharing, Stock Ownership and Savings Plans" on page 7, of the Company's 1992 Proxy Statement.

Item 13. Certain Relationships and Related Transactions

Information regarding certain relationships and related transactions is incorporated herein by reference to the material under the heading "Certain Transactions" on page 19 of the Company's 1992 Proxy Statement.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)1 and 2 - An "Index to Financial Statements and Financial Statement Schedules" has been filed as a part of this Report beginning on page S-1 hereof.

(a)3 - Exhibits:

An "Exhibit Index" has been filed as a part of this Report beginning on page E-1 hereof.

(b) - Reports on Form 8-K:

A Current Report on Form 8-K for October 16, 1991 was filed with the Securities and Exchange Commission (the "Commission") on October 21, 1991 to report, under Item 5, that the California Commissioner of Insurance had issued an order directing Allstate Insurance Company to refund certain sums to its customers pursuant to rollback regulations under California Proposition 103, certain other matters relating to California Proposition 103 and that, despite the Commissioner's order, the Company does not believe that Allstate Insurance Company will be required to refund any monies to its California policyholders. A Current Report on Form 8-K for October 23, 1991 was filed with the Commission on October 24, 1991 to report, under Item 5, that the Company issued a press release reporting results for the third quarter of 1991 and to file, under Item 7, a copy of such press release. A Current Report on Form 8-K for October 28, 1991 was filed with the Commission on October 29, 1991 to report, under Item 5, Allstate Insurance Company's estimate of its losses as a result of the Oakland, California fire during the weekend of October 17, 1991. A Current Report on Form 8-K for November 5, 1991 was filed with the Commission on November 26, 1991 to report, under Item 5, that Sears had executed an Underwriting Agreement with Dean Witter Reynolds Inc., Goldman, Sachs & Co. and Morgan Stanley & Co., Incorporated (the "Representatives") relating to debt securities and, pursuant thereto, a Pricing Agreement with the Representatives, as representatives of the several underwriters named in the Pricing Agreement, relating to $350,000,000, $250,000,000 and $300,000,000 aggregate principal amount of Sears 7.000% Notes due 1994, 8.450% Notes due 1998 and 9.375% Debentures due 2011, respectively, and to file, under Item 7, copies of such Underwriting and Pricing Agreements and the Indenture, forms of notes and debentures and opinion of counsel to Sears relating to such notes and debentures. A Current Report on Form 8-K for December 13, 1991 was filed with the

Commission on January 9, 1992 to report, under Item 5, that Sears entered into a Distribution Agreement with Dean Witter Reynolds Inc., Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated and Salomon Brothers Inc as agents, relating to $2,000,000,000 aggregate principal amount of Medium-Term Notes Series VI to be issued and sold from time to time pursuant to the Distribution Agreement, and to file, under Item 7: such Distribution Agreement; the Indenture, the forms of notes, an opinion of counsel to Sears, an opinion of special tax counsel to Sears, and a Letter of Representations between Sears, the trustee under the aforesaid Indenture and The Depository Trust Company relating thereto; and the By-Laws of Sears as amended to December 19, 1991.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SEARS, ROEBUCK AND CO.
(Registrant)

E. M. Liddy

By: Edward M. Liddy
Senior Vice President and
Chief Financial Officer and
Acting Comptroller

March 27, 1992

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
Edward A. Brennan Edward A. Brennan	Director, Chairman of the Board of Directors, President and Chief Executive Officer	
Edward M. Liddy Edward M. Liddy	Senior Vice President and Chief Financial Officer and Acting Comptroller (Principal Financial Officer and Principal Accounting Officer)	
Warren L. Batts Warren L. Batts	Director	March 27, 1992
E. Mandell de Windt E. Mandell de Windt	Director	
Sybil C. Mobley Sybil C. Mobley	Director	
Norma Pace Norma Pace	Director	

Signature	Title	Date
Nancy C. Reynolds	Director	)
Clarence B. Rogers, Jr.	Director	)
Donald H. Rumsfeld	Director	) March 27, 1992
Edgar B. Stern, Jr.	Director	)

SEARS, ROEBUCK AND CO.
INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES
Year Ended December 31, 1991

The following consolidated financial statements, notes thereto and related information of Sears, Roebuck and Co. are incorporated herein by reference to the Company's 1991 Annual Report.

* Refers to page number in Company's 1991 Annual Report.
** Incorporated by reference in Item 8 herein.
*** Incorporated by reference in Item 5 herein.

The following additional financial statement schedules and report and consent of Independent Certified Public Accountants are furnished herewith pursuant to the requirements of Form 10-K.

All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or in notes thereto.

* Refers to page number in Company's 1991 Annual Report.
** Incorporated by reference in Item 8 herein.

SEARS, ROEBUCK AND CO.
SCHEDULE I – MARKETABLE SECURITIES – OTHER INVESTMENTS
YEAR ENDED DECEMBER 31, 1991

(millions)

Type of Investment	Cost of Each Issue	Market Value of Each Issue at Balance Sheet Date	Amount at which Each Portfolio of Equity Security Issues and Each Other Security Issue Carried in the Balance Sheet
Bonds, mortgage-backed securities and redeemable preferred stocks:			
United States government and government agencies and authorities	$ 456.6	$ 500.3	$ 456.6
States, municipalities and political subdivisions	15,112.8	16,326.6	15,112.8
Foreign governments	291.7	315.7	291.7
Public utilities	2,818.5	2,970.0	2,818.5
Convertible bonds and bonds with warrants attached	1.7	1.7	1.7
High-yield corporate bonds	923.5	850.9	923.5
All other corporate bonds	5,255.3	5,761.6	5,255.3
Redeemable preferred stocks	495.1	497.0	495.1
Mortgage-backed securities	4,586.4	4,960.0	4,586.4
Total	29,941.6	32,183.8	29,941.6
Preferred stocks	176.4	177.2	177.2
Common stocks:			
Public utilities	299.5	335.4	335.4
Industrial and miscellaneous	2,179.0	2,645.8	2,645.8
Banks, trusts and insurance companies	225.7	261.8	261.8
Total preferred and common stocks	2,880.6	3,420.2	3,420.2
Total bonds and stocks	32,822.2	$ 35,604.0	33,361.8
Mortgage loans	10,293.7		10,293.7
Real estate	2,911.3		2,911.3
Total investments	$ 46,027.2		$ 46,566.8

SEARS, ROEBUCK AND CO.
SCHEDULE II
AMOUNTS RECEIVABLE FROM RELATED PARTIES AND UNDERWRITERS, PROMOTERS AND EMPLOYEES OTHER THAN RELATED PARTIES

(millions)

Name	Balance at Beginning of Period	Additions	Deductions: Amounts Collected	Deductions: Amounts Written Off	Balance at End of Period: Current	Balance at End of Period: Not Current
Year Ended December 31, 1991						
Homart Real Estate Joint Ventures – prime or prime + 1%, due upon arrangement of construction financing	$ 118.6	$ 88.7	$ 36.9	$ –	$ 170.4	$ –
Year Ended December 31, 1990						
Homart Real Estate Joint Ventures – prime, 12% or prime + 1%, due upon arrangement of construction financing	$ 28.2	$ 184.7	$ 94.3	$ –	$ 118.6	$ –
Year Ended December 31, 1989						
Homart Real Estate Joint Ventures – prime, 12% or prime + 1%, due upon arrangement of construction financing	$ 45.3	$ 26.5	$ 43.6	$ –	$ 28.2	$ –
Dean Witter Reynolds Inc. (Canada) Non interest bearing short–term loan (A)	4.0	.5	4.5	–	–	–

(A) Dean Witter acquired 100% of Dean Witter Reynolds Inc. (Canada) during 1989.

SEARS, ROEBUCK AND CO.
SCHEDULE III
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF INCOME

(millions)	Year Ended December 31 1991	1990	1989
Revenues			
Net sales	$ 23,068.1	$ 23,436.7	$ 23,595.1
Finance charge revenues	1,639.4	2,157.7	2,118.3
Total revenues	24,707.5	25,594.4	25,713.4
Costs and Expenses			
Cost of sales, buying and occupancy	16,162.0	16,089.8	16,097.1
Selling and administrative expenses	7,326.1	7,754.5	7,524.2
Provision for uncollectible accounts	351.1	475.1	322.7
Restructuring	–	231.2	–
Interest (after deduction of income before income taxes of financing subsidiaries of $219.7, $287.1 and $286.7)	1,324.8	1,453.1	1,451.8
Total costs and expenses	25,164.0	26,003.7	25,395.8
Operating income (loss)	(456.5)	(409.3)	317.6
Other loss	(34.7)	(85.2)	(96.6)
Income (loss) before income taxes and equity in net income (loss) of unconsolidated subsidiaries and companies	(491.2)	(494.5)	221.0
Income taxes (benefit)	(147.0)	(180.9)	102.4
Equity in net income (loss) of unconsolidated subsidiaries and companies	1,623.1	1,215.8	1,389.9
Net income	$ 1,278.9	$ 902.2	$ 1,508.5

See accompanying notes to condensed financial information and notes to Consolidated Financial Statements incorporated herein by reference.

SEARS, ROEBUCK AND CO.
SCHEDULE III
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF FINANCIAL POSITION

(millions)	December 31 1991	1990
Assets		
Current assets		
Accounts and notes receivable	$ 8,822.0	$ 12,106.1
Less: Allowance for uncollectible accounts	260.2	283.9
	8,561.8	11,822.2
Notes due from affiliates	2,307.4	155.0
Merchandise inventories	3,512.1	3,187.8
Discount on accounts receivable sold	146.3	–
Prepaid expenses and other assets	731.3	537.0
Deferred income taxes	282.2	289.5
Cash and invested cash	1,545.5	724.9
Total current assets	17,086.6	16,716.4
Investments in and advances to unconsolidated subsidiaries and companies (including goodwill of $527.5 million and $526.2 million)	19,778.6	17,222.8
Property and equipment	6,173.2	5,963.0
Less: Accumulated depreciation	3,194.6	2,996.0
	2,978.6	2,967.0
Total assets	$ 39,843.8	$ 36,906.2
Liabilities		
Current liabilities		
Short-term borrowings:		
Notes due to Sears Roebuck Acceptance Corp.	$ 11,061.9	$ 14,578.2
Notes due to affiliates	986.9	90.0
Notes payable to banks	113.9	130.8
Current maturities of long-term debt	926.2	553.9
	13,088.9	15,352.9
Accounts payable and other liabilities	3,649.6	3,444.9
Unearned revenues	1,073.6	1,062.3
Total current liabilities	17,812.1	19,860.1
Long-term debt (note 4)	7,788.6	4,163.5
Deferred income taxes	54.9	58.8
Total liabilities	25,655.6	24,082.4
Commitments and contingent liabilities (notes 1, 4)		
Shareholders' equity (note 2)		
Preferred shares ($1.00 par value)	325.0	–
Common shares ($.75 par value)	289.5	289.1
Capital in excess of par value	2,153.4	2,137.9
Retained income	13,514.3	12,927.1
Treasury stock (at cost)	(1,746.4)	(1,765.8)
Deferred ESOP expense	(739.4)	(777.7)
Unrealized net capital gains (losses) on marketable equity securities	365.5	(12.9)
Cumulative translation adjustments	26.3	26.1
Total shareholders' equity	14,188.2	12,823.8
Total liabilities and shareholders' equity	$ 39,843.8	$ 36,906.2

See accompanying notes to condensed financial information and notes to Consolidated Financial Statements incorporated herein by reference.

SEARS, ROEBUCK AND CO.
SCHEDULE III
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF CASH FLOWS

(millions)	Year Ended December 31		
	1991	1990	1989
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 1,278.9	$ 902.2	$ 1,508.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and other noncash items	429.0	375.8	397.3
Provisions for uncollectible accounts	351.1	475.1	322.7
Gains on sales of property and investments	(54.3)	(16.1)	(28.8)
Change in deferred taxes	3.4	(569.9)	(156.2)
Decrease (increase) in receivables	3,583.2	(1,969.0)	(574.3)
Decrease (increase) in merchandise inventories	(324.3)	187.5	(577.1)
Decrease (increase) in other operating assets	(237.1)	48.6	(137.8)
Increase (decrease) in other operating liabilities	140.4	(417.7)	337.8
Undistributed net income of unconsolidated subsidiaries	(1,435.0)	(1,082.3)	(750.1)
Net cash provided by (used in) operating activities	3,735.3	(2,065.8)	342.0
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of investments	71.2	2.3	–
Investments and advances	–	–	(19.2)
Proceeds from sales of property and equipment	16.1	19.1	65.7
Purchases of property and equipment	(421.3)	(476.6)	(488.7)
Increase in notes receivable from affiliates	(2,152.4)	–	–
Net capital contributions and advances to unconsolidated subsidiaries	(444.6)	(886.0)	(120.9)
Net cash used in investing activities	(2,931.0)	(1,341.2)	(563.1)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term debt	3,399.5	2,757.7	1,211.5
Repayments of long-term debt	(639.5)	(529.1)	(1,101.6)
Net change in short-term borrowings, primarily 90 days or less	(2,423.2)	2,979.5	2,158.3
Repayments from (advances to) ESOP	6.5	(791.0)	(9.0)
Preferred shares issued	315.1	–	–
Common shares issued for employee stock plans	45.2	10.4	54.6
Dividends paid to shareholders, net of reinvested amounts	(687.3)	(680.5)	(685.6)
Common shares repurchased	–	–	(1,420.1)
Net cash provided by financing activities	16.3	3,747.0	208.1
Net increase (decrease) in cash and invested cash	$ 820.6	$ 340.0	$ (13.0)
Cash and invested cash at beginning of year	$ 724.9	$ 384.9	$ 397.9
Cash and invested cash at end of year	$ 1,545.5	$ 724.9	$ 384.9

See accompanying notes to condensed financial information and notes to Consolidated Financial Statements incorporated herein by reference.

SEARS, ROEBUCK AND CO.
SCHEDULE III
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
NOTES TO CONDENSED FINANCIAL INFORMATION

(1) Basis of Presentation

The financial statements of the registrant should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Sears, Roebuck and Co. 1991 Annual Report to Shareholders.

The financial statements include only the accounts of the registrant (a New York corporation), which include the corporate operations of Sears, Roebuck and Co. Unconsolidated subsidiaries include primarily the companies comprising the Allstate Insurance Group, the Dean Witter Financial Services Group, the Coldwell Banker Real Estate Group and the wholly-owned financing subsidiaries. Debt and related interest expense of the registrant have not been allocated to the unconsolidated subsidiaries. Profit sharing expense and the provision for income taxes have been calculated on the basis described in the summary of significant accounting policies and notes to Consolidated Financial Statements in the Sears, Roebuck and Co. 1991 Annual Report to Shareholders incorporated herein by reference.

The registrant has established agreements with certain financing subsidiaries which ensure a minimum level of earnings at the subsidiaries in excess of interest and operating expenses.

Certain reclassifications have been made in the 1990 and 1989 financial statements of the registrant to conform to current accounting classifications.

(2) Dividends to Shareholders

Certain indentures relating to the long-term debt of Sears, Roebuck and Co., which represent the most restrictive contractual limitation on the payment of dividends, provide that the Company cannot take specified actions, including the declaration of cash dividends, which would cause its consolidated unencumbered assets, as defined, to fall below 150 percent of its consolidated liabilities, as defined. At December 31, 1991, $9.8 billion in retained income could be paid in dividends to shareholders under the most restrictive indentures.

(3) Dividends From Subsidiaries

Dividends paid to the registrant by unconsolidated subsidiaries were $343.9, $345.6 and $834.8 million for the years ended December 31, 1991, 1990 and 1989, respectively. Dividends paid to the registrant by 50% or less owned persons accounted for by the equity method were immaterial. Unconsolidated subsidiaries can transfer additional amounts to the registrant in the form of loans or advances.

SEARS, ROEBUCK AND CO.
SCHEDULE III
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
NOTES TO CONDENSED FINANCIAL INFORMATION

(4) Long-term debt is comprised of the following:

(millions)	December 31 1991	December 31 1990
6-7/8% Yen Bonds, due 1991	$ -	$ 58.4
13-1/4% Notes, due 1992	231.0	231.0
9.35% Notes, due 1993	400.0	400.0
7% Notes, due 1994	350.0	-
12% Notes, due 1994	230.9	230.9
8.55% Notes, due 1996	200.0	200.0
9% Notes, due 1996	200.0	200.0
9-1/4% Notes, due 1997	300.0	300.0
8.45% Notes, due 1998	250.0	-
9-1/4% Notes, due 1998	500.0	-
Extendable Notes, 7-1/2% to April 15, 1992, due 1999	49.2	49.2
9-1/2% Notes, due 1999	200.0	200.0
6% Debentures, $300 million face value, due 2000 (effective rate 14.8%)	176.5	169.2
7% Debentures, $300 million face value, due 2001 (effective rate 14.6%)	182.7	177.6
9.375% Debentures, due 2011	300.0	-
Floating Commercial Paper Rate - Put Premium Option Notes, 4.95% at Dec. 31, 1991, due 2021	200.0	-
4.50% to 10.35% Medium-Term Notes, due 1991 to 2021	3,324.2	1,847.1
Notes to Sears Roebuck Acceptance Corp. expected to be refinanced from sale of Series A Preferred Shares	1,200.0	-
Due to financing subsidiary:		
12-5/8% Note, due 1991	-	150.0
12.78% Note, due 1991	-	100.0
12-5/8% Note, due 1993	150.0	150.0
Zero Coupon Note, $500 million face value, due 1998 (effective rate 13.39%)	207.3	182.8
Capitalized lease obligations and notes payable	63.0	71.2
	8,714.8	4,717.4
Less: Current maturities	926.2	553.9
Total long-term debt	$ 7,788.6	$ 4,163.5

As of December 31, 1991, long-term debt maturities for the next five years, excluding notes to Sears Roebuck Acceptance Corp. classified as long-term debt, are as follows:

1992	$ 926.2
1993	1,198.0
1994	1,044.3
1995	380.6
1996	833.5

SEARS, ROEBUCK AND CO.
SCHEDULE III
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
NOTES TO CONDENSED FINANCIAL INFORMATION

As detailed in note 9 of the 1991 Annual Report to Shareholders the registrant has guaranteed all of the borrowings and the related interest payments of Sears Overseas Finance N.V. (SOFNV), aggregating $1.1 billion (face value $1.5 billion) at December 31, 1991.

Under the terms of an agreement dated as of September 2, 1986, Sears, Roebuck and Co. agreed to make all payments required to be made by Sears Roebuck Acceptance Corp.(SRAC) to SOFNV in accordance with certain loan agreements between SRAC and SOFNV. SRAC remains liable to SOFNV pursuant to such loan agreements.

The registrant has issued a $450.0 million demand note payable, due on or before December 29, 1995, arising from a capital contribution to Allstate Insurance Company, which is reflected as a reduction in investments in and advances to unconsolidated subsidiaries and companies.

(5) Supplemental Cash Flow Information

The following is a summary of the significant noncash investing and financing activities:

(millions)	December 31		
	1991	1990	1989
Contribution of net retail customer receivables to unconsolidated subsidiary	$ 869.6	$ 1,094.2	$ 625.6
Purchase of retail customer receivables from unconsolidated subsidiary for note payable	986.9		
Contribution of property and equipment to unconsolidated subsidiaries		513.0	
Assumption of debt by unconsolidated subsidiary		833.0	
Contribution of note receivable to unconsolidated subsidiary		650.0	

SEARS, ROEBUCK AND CO.
SCHEDULE VIII – VALUATION AND QUALIFYING ACCOUNTS
THREE YEARS ENDED DECEMBER 31, 1991

(millions)

Description	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Other Additions (Describe) (B)	Deductions (Describe) (B)	Balance at End of Period
Year Ended December 31, 1991					
Allowance for uncollectible accounts	$ 742.6	$ 1,011.6 (A)	$ 101.2 (C)	$ 1,005.0 (E)	$ 850.4
Allowance for estimated losses on loans and real estate	66.4	147.8	7.5 (C)	52.2 (F)	169.5
Total	$ 809.0	$ 1,159.4	$ 108.7	$ 1,057.2	$ 1,019.9
Year Ended December 31, 1990					
Allowance for uncollectible accounts	$ 683.2	$ 881.7 (A)	$ 80.8 (C)	$ 903.1 (G)	$ 742.6
Allowance for estimated losses on loans and real estate	21.7	98.3	1.9 (C)	55.5 (F)	66.4
Total	$ 704.9	$ 980.0	$ 82.7	$ 958.6	$ 809.0
Year Ended December 31, 1989					
Allowance for uncollectible accounts	$ 599.9	$ 638.9 (A)	$ 84.1 (D)	$ 639.7 (H)	$ 683.2
Allowance for estimated losses on loans and real estate	25.6	31.1	3.6 (C)	38.6 (F)	21.7
Total	$ 625.5	$ 670.0	$ 87.7	$ 678.3	$ 704.9

(A) Excludes provision related to Sears Merchandise Group recourse liability for sold accounts of $308.0, $168.3 and $49.8 million in 1991, 1990 and 1989, respectively.

(B) Excludes charge–offs and recoveries related to Sears Merchandise Group recourse liability for sold accounts.

(C) Recoveries of Accounts Charged Off

(D) Includes:

Recoveries of Accounts Charged Off	$ 81.8
Purchase of Accounts	2.3
	$ 84.1

(E) Includes:

Uncollectible Accounts Charged Off	$ 864.2
Reclass to Recourse on Accounts Sold	140.8
	$ 1,005.0

(F) Realized Losses

(G) Includes:

Uncollectible Accounts Charged Off	$ 749.5
Reclass to Recourse on Accounts Sold	153.6
	$ 903.1

(H) Includes:

Uncollectible Accounts Charged Off	$ 594.6
Reclass to Recourse on Accounts Sold	45.1
	$ 639.7

SEARS, ROEBUCK AND CO.
SCHEDULE IX – SHORT–TERM BORROWINGS

(millions)

Category of Aggregate Short–Term Borrowings	Balance at End of Period	Weighted Average Interest Rate	Maximum Amount Outstanding During the Period	Average Amount Outstanding During the Period (A)	Weighted Average Interest Rate During the Period (B)
Year Ended December 31, 1991					
Commercial Paper (C)	$ 12,271.3	5.19 %	$14,977.7	$13,914.7	6.26 %
Agreements with Bank Trust Departments	510.1	4.46	682.6	643.4	5.86
Bank Loans	2,947.9	5.02	3,414.4	3,032.8	5.97
International	183.9	10.75	896.3	565.7	12.39
Total	$ 15,913.2				
Year Ended December 31, 1990					
Commercial Paper (C)	$ 13,935.2	8.23 %	$14,042.7	$13,146.7	8.27 %
Agreements with Bank Trust Departments	571.9	7.52	987.7	848.2	8.13
Bank Loans	3,948.7	7.68	4,221.4	3,442.4	8.19
International	558.2	13.44	670.8	597.1	15.27
Total	$ 19,014.0				
Year Ended December 31, 1989					
Commercial Paper (C)	$ 12,163.1	8.71 %	$12,265.6	$11,525.2	9.29 %
Agreements with Bank Trust Departments	792.7	8.45	1,120.6	971.8	9.09
Bank Loans	2,810.6	8.83	3,226.4	2,426.1	8.98
International	647.3	15.26	722.9	598.5	16.14
Total	$ 16,413.7				

(A) The average amount outstanding during the period was calculated on a daily basis.

(B) The weighted average interest rate during the period was computed by dividing the actual interest expense by the average short–term borrowings outstanding.

(C) The balances include Commercial Paper classified as long–term debt of $6.1 billion at December 31, 1991 and $3.7 billion at December 31, 1990 and 1989.

SEARS, ROEBUCK AND CO.
SCHEDULE V – SUPPLEMENTARY INSURANCE INFORMATION

(millions)

Segment	Deferred Policy Acquisition Costs	Reserves for Claims, Claims Expense and Policy Benefits	Unearned Premiums	Premium Revenue and Contract Charges	Net Investment Income	Claims, Claims Expense and Policy Benefits	Policy Acquisition Costs	Other Operating Costs and Expenses	Premiums Written (Excluding Life)
Year Ended December 31, 1991									
Property–Liability Insurance	$ 465.8	$ 12,426.3	$ 5,085.8	$ 15,147.0	$ 1,397.2	$ 12,574.6	$ 2,764.7	$ 940.8	$ 15,261.8
Life Insurance	956.5	17,787.7	8.4	1,196.9	1,604.2	2,121.6	276.4	133.4	138.0
Year Ended December 31, 1990									
Property–Liability Insurance	$ 427.1	$ 11,376.3	$ 4,985.9	$ 14,280.5	$ 1,296.9	$ 12,198.8	$ 2,614.3	$ 888.6	$ 14,696.1
Life Insurance	808.3	14,367.9	20.1	1,166.1	1,274.4	1,827.2	256.0	110.7	130.9
Year Ended December 31, 1989									
Property–Liability Insurance	$ 386.4	$ 10,162.1	$ 4,580.5	$ 13,133.0	$ 1,252.0	$ 10,873.6	$ 2,425.1	$ 844.7	$ 13,490.1
Life Insurance	686.5	10,679.7	27.3	1,211.5	983.2	1,653.7	253.7	67.5	152.9

SEARS, ROEBUCK AND CO.
SCHEDULE VI – REINSURANCE

(millions)

	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percent of Amount Assumed to Net
Year Ended December 31, 1991					
Life Insurance in Force	$ 110,135.7	$ 6,777.7	$ 6,284.9	$ 109,642.9	5.7%
Premiums and Contract Charges:					
Life Insurance	$ 1,019.4	$ 11.4	$ 0.5	$ 1,008.5	0.1%
Accident–Health Insurance	195.4	16.6	9.6	188.4	5.1%
Property–Liability Insurance	14,776.2	400.8	771.6	15,147.0	5.1%
Total Premiums and Contract Charges	$ 15,991.0	$ 428.8	$ 781.7	$ 16,343.9	4.8%
Year Ended December 31, 1990					
Life Insurance in Force	$ 100,521.1	$ 4,737.4	$ 154.0	$ 95,937.7	0.2%
Premiums and Contract Charges:					
Life Insurance	$ 1,021.2	$ 9.3	$ 0.5	$ 1,012.4	– %
Accident–Health Insurance	155.9	11.5	9.3	153.7	6.1%
Property–Liability Insurance	13,927.7	382.5	735.3	14,280.5	5.1%
Total Premiums and Contract Charges	$ 15,104.8	$ 403.3	$ 745.1	$ 15,446.6	4.8%
Year Ended December 31, 1989					
Life Insurance in Force	$ 92,832.9	$ 4,149.6	$ 147.3	$ 88,830.6	0.2%
Premiums and Contract Charges:					
Life Insurance	$ 1,061.9	$ 6.4	$ 0.4	$ 1,055.9	– %
Accident–Health Insurance	155.0	8.7	9.3	155.6	6.0%
Property–Liability Insurance	12,923.2	459.8	669.6	13,133.0	5.1%
Total Premiums and Contract Charges	$ 14,140.1	$ 474.9	$ 679.3	$ 14,344.5	4.7%

SEARS, ROEBUCK AND CO.
SCHEDULE X – SUPPLEMENTAL INSURANCE INFORMATION CONCERNING
PROPERTY–CASUALTY INSURANCE OPERATIONS

(millions)

Affiliation with Registrant	Deferred Policy Acquisition Costs	Reserves for Claims and Claim Adjustment Expenses	Discount Deducted from Reserves	Unearned Premiums	Premiums Earned	Net Investment Income	Claims and Claim Adjustment Expenses Incurred Related to: Current Year	Prior Years	Policy Acquisition Costs
Year Ended December 31, 1991									
Property–Liability Insurance Subsidiary	$ 465.8	$ 12,426.3	$ –	$ 5,085.8	$ 15,147.0	$ 1,397.2	$ 12,357.1	$ 217.5	$ 2,764.7
Year Ended December 31, 1990									
Property–Liability Insurance Subsidiary	$ 427.1	$ 11,376.3	$ –	$ 4,985.9	$ 14,280.5	$ 1,296.9	$ 11,826.7	$ 372.1	$ 2,614.3
Year Ended December 31, 1989									
Property–Liability Insurance Subsidiary	$ 386.4	$ 10,162.1	$ –	$ 4,580.5	$ 13,133.0	$ 1,252.0	$ 10,878.6	$ (5.0)	$ 2,425.1

Deloitte & Touche

Two Prudential Plaza
180 North Stetson Avenue
Chicago, Illinois 60601
Telephone: (312) 946-3000
Telecopier: (312) 946-2600

To the Shareholders and Board of Directors of
Sears, Roebuck and Co.:

We have audited the consolidated financial statements of Sears, Roebuck and Co. as of December 31, 1991 and 1990, and for each of the three years in the period ended December 31, 1991, and have issued our report thereon dated February 28, 1992, which report includes an explanatory paragraph as to the change in the accounting for income taxes in 1991; such consolidated financial statements and report are included in your 1991 Annual Report to Shareholders and are incorporated herein by reference. Our audits also included the financial statement schedules of Sears, Roebuck and Co., listed in the Index at Item 14(a)2. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The additional information set forth under "Operating results" and "Financial position" and on the lines captioned "Book value per share (year-end)", "Average shares outstanding (millions)", "Net income per share" and "Dividends per share" under "Shareholders' common stock investment" for each of the ten years in the period ended December 31, 1991, appearing under the caption "Ten-Year Summary of Consolidated Financial Data" on pages 10 and 11 of the Sears, Roebuck and Co. 1991 Annual Report to Shareholders is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. This additional information is the responsibility of the Company's management. Such information has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

We have also previously audited, in accordance with generally accepted auditing standards, the Consolidated Statements of Financial Position of Sears, Roebuck and Co. as of December 31, 1982 through 1989, and the related Consolidated Statements of Income and Shareholders' Equity for each of the seven years in the period ended December 31, 1988 and the Consolidated Statements of Changes in Financial Position for each of the four years in the period ended December 31, 1985 and the Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 1988 (none of which are presented herein); and we expressed unqualified opinions on those consolidated financial statements. Effective January 1, 1986, the Company changed its method of accounting for the cost of pension plans and effective January 1, 1988 the Company changed its accounting for income taxes.

Deloitte & Touche

February 28, 1992

Deloitte & Touche

Two Prudential Plaza
180 North Stetson Avenue
Chicago, Illinois 60601
Telephone: (312) 946-3000
Telecopier: (312) 946-2600

Exhibit 24

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in Registration Statement Nos. 2-64879, 2-80037, 33-18081, 33-23793, 33-29458, 33-32008, 33-32568, 33-35021, 33-37427, 33-39724, 33-41485, 33-43459, 33-44067 and 33-45479 of Sears, Roebuck and Co., Registration Statement Nos. 33-11100 and 33-32170 of Sears, Roebuck and Co. and Dean Witter Reynolds Inc. Employee Retirement Investment Plan, Registration Statement Nos. 33-36993 and 33-42825 of Sears, Roebuck and Co. and The Savings and Profit Sharing Fund of Sears Employees, Registration Statement No. 33-46421 of Sears, Roebuck and Co., SPS Transaction Services, Inc. and SPS Transaction Services, Inc. Employee Retirement Investment Plan, Registration Statement No. 33-30807 of Discover Credit Corp. and Registration Statement Nos. 33-40056 and 33-44671 of Sears, Roebuck and Co. and Discover Credit Corp., of our report dated February 28, 1992, appearing in this Annual Report on Form 10-K of Sears, Roebuck and Co. for the year ended December 31, 1991.

Deloitte & Touche

March 26, 1992

EXHIBIT INDEX

Sears, Roebuck and Co. Form 10-K
For the Year Ended December 31, 1991

3.(a)	Restated Certificate of Incorporation, as amended to February 25, 1992. Incorporated by reference to Exhibit 4.5 to Registration Statement No. 33-46421.
3.(b)	By-Laws as amended to March 11, 1992. Incorporated by reference to Exhibit 4.6 to Registration Statement No. 33-46421.
4.	Registrant hereby agrees to furnish to the Commission, upon request, with the instruments defining the rights of holders of each issue of long-term debt of the Registrant and its consolidated subsidiaries.
10.(iii)(1)	Registrant's 1979 Incentive Compensation Plan. Incorporated by reference to Exhibit 10.(iii)(1) to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1985.*
10.(iii)(2)	Registrant's 1978 Employes Stock Plan, as amended. Incorporated by reference to Exhibit 10.(iii)(2) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1989.*
10.(iii)(3)	Registrant's Deferred Compensation Plan for Directors, as amended and restated on February 14, 1989. Incorporated by reference to Exhibit 10.(iii)(4) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1988.*
10.(iii)(4)	Registrant's Annual Incentive Compensation Plan, amended as of March 18, 1985. Incorporated by reference to Exhibit 10.(iii)(6) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1984.*
10.(iii)(5)	Registrant's Long-Term Incentive Compensation Plan, amended as of March 18, 1985. Incorporated by reference to Exhibit 10.(iii)(7) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1984.*
10.(iii)(6)	Registrant's 1982 Employees Stock Plan. Incorporated by reference to Exhibit 4(a)(1) to Registration Statement No. 2-80037 of the Registrant.
10.(iii)(7)	Description of Registrant's Supplemental Life Insurance Plan, amended as of December 31, 1986. Incorporated by reference to the second and third full paragraphs on page 10 of the Registrant's Proxy Statement dated March 26, 1987.*

*SEC File No. 1-416
**Filed herewith

10.(iii)(8) Registrant's Non-Employee Directors' Retirement Plan, as amended on November 14, 1990. Incorporated by reference to Exhibit 10.(iii)(9) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1990.*

10.(iii)(9) Description of Registrant's Non-Employee Director Life Insurance Plan. Incorporated by reference to the eighth paragraph on page 4 of the Registrant's Proxy Statement dated March 26, 1986.*

10.(iii)(10) Registrant's Supplemental Retirement Income Plan, amended as of November 11, 1986. Incorporated by reference to Exhibit 10.(iii)(12) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1986.*

10.(iii)(11) Registrant's 1986 Employees Stock Plan. Incorporated by reference to pages 13 through 17 of the Registrant's Proxy Statement dated March 26, 1986.*

10.(iii)(12) Registrant's Transferred Executives Pension Supplement. Incorporated by reference to Exhibit 10.(iii)(13) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1988.*

10.(iii)(13) Registrant's Supplemental Long-Term Disability Plan. Incorporated by reference to Exhibit 10.(iii)(17) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1987.*

10.(iii)(14) Registrant's Deferred Compensation Plan. Incorporated by reference to Exhibit 10.(iii)(14) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1986.*

10.(iii)(15) Amendment dated as of July 31, 1989 to the Registrant's Deferred Compensation Plan. Incorporated by reference to Exhibit 10 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1989.*

**10.(iii)(16) Allstate Supplemental Retirement Income Plan, amended as of May 28, 1991.

10.(iii)(17) Dean Witter Reynolds Financial Services Inc. Supplemental Pension Plan for Executives, amended and restated as of January 1, 1985. Incorporated by reference to Exhibit 10.(iii)(14) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1985.*

10.(iii)(18) Dean Witter Financial Services Inc. 1986 Capital Accumulation Plan, effective December 31, 1985. Incorporated by reference to Exhibit 10.(iii)(16) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1985.*

*SEC File No. 1-416
**Filed herewith

10.(iii)(19)	Stock Plan for Non-Employee Directors. Incorporated by reference to Appendix F of the Registrant's Proxy Statement dated March 25, 1988.*
10.(iii)(20)	Registrant's 1990 Employees Stock Plan. Incorporated by reference to Appendix A to the Registrant's Proxy Statement dated March 22, 1990.*
10.(iii)(21)	Amendment dated as of November 1, 1990 to the Registrant's Deferred Compensation Plan. Incorporated by reference to Exhibit 10.(iii)(22) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1990.*
10.(iii)(22)	Amendment to the Registrant's Stock Plan for Non-Employee Directors, adopted on August 14, 1991. Incorporated by reference to Exhibit 10.(a) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1991.*
10.(iii)(23)	Amendment to the Registrant's Deferred Compensation Plan for Directors, adopted on August 14, 1991. Incorporated by reference to Exhibit 10.(b) to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1991.*
**10.(iii)(24)	SPS Transaction Services, Inc. 1992 Employees Stock Plan.
**11.	Computation of Earnings per Share.
**12.(a)	Computation of ratio of income to fixed charges (excluding interest on savings deposits) for Registrant and consolidated subsidiaries.
**12.(b)	Computation of ratio of income to fixed charges (including interest on savings deposits) for Registrant and consolidated subsidiaries.
**13.	Registrant's Annual Report - 1991.
**22.	Subsidiaries of the Registrant.
**24.	Consent of Deloitte & Touche.
**29.	Information from reports furnished to state insurance regulatory authorities (Schedule P of the Annual Statements, including information formerly included in Schedule O).

*SEC File No. 1-416
**Filed herewith

Exhibit 10(iii)(16)

Supplemental Retirement Income Plan

This Supplemental Retirement Income Plan is established for the benefit of participants in the Allstate Retirement Plan who retire or die after December 31, 1977. The Corporation shall pay, from time to time out of its general funds, to such participants (or, in the case of the death of any such participant, to any person or persons to whom benefits are payable) benefits equal to the amount, if any, by which the benefits payable under the Allstate Retirement Plan were reduced in order to comply with the limits imposed by the Internal Revenue Code on the annual amount of retirement income, including limits on the maximum amount of annual compensation which maybe taken into account. The Corporation shall also pay, from time to time out of its general funds, to participants who are entitled to benefits under the preceding sentence (or, in the case of the death of any such participant, to any person or persons to whom such benefits are payable), a benefit equal to the portion, if any, of the Prior Service Element of the participant's retirement income under the Allstate Retirement Plan which is not payable to the participant because he/she is highly compensated within the meaning of Section 414(q) of the Internal Revenue Code. Compensation for purposes of the Supplemental Retirement Income Plan shall include any compensation deferred under the Sears, Roebuck and Co. Deferred Compensation Plan which is not included as compensation under the Allstate Retirement Plan.

The benefit, if any, payable from time to time to or on account of any person under the Supplemental Retirement Income Plan shall be paid commencing as of the same date, for the same period, based upon the same assumptions, and subject to the same terms and conditions as the benefit paid to or on account of such person under the Allstate Retirement Plan.

If a participant in the Allstate Retirement Plan elects to receive the retirement benefit payable under the Allstate Retirement Plan in the form of a lump sum, rather than in the form of monthly payments, such participant (with the consent of the Senior Vice President Corporate Human Resources and Administrative Operations) may elect to have the monthly retirement amount, if any, payable under the Supplemental Retirement Income Plan paid to him/her (commencing as of the date the lump sum payment is calculated) in an actuarially adjusted amount pursuant to one of the option forms set forth in Section 4.1 of the Allstate Retirement Plan.

The monthly retirement amount payable under the Supplemental Retirement Income Plan, or the unpaid balance thereof, may be paid (in the sole discretion of the Senior Vice President Corporate Human Resources and Administrative Operations) to the person or persons entitled thereto in a lump sum which is actuarially equivalent to the amount which would be payable under the Supplemental Retirement Income Plan to the participant had such amount been paid under the provisions of the Allstate Retirement Plan; provided that such lump sum payment shall not be made until the date the monthly payments to the participant or other person commence under the Allstate Retirement Plan or until the date a lump sum payment is made in lieu of such monthly payments. In calculating the lump sum actuarial equivalent under the Supplemental Retirement Income Plan, the interest rates to be employed shall be the same interest rates that were used or would have been used for computing a lump sum under the Allstate Retirement Plan.

In the event a participant dies while employed by the Corporation, any benefit which would become payable pursuant to the terms of the Supplemental Retirement Income Plan shall be payable to the person or persons designated by him/her hereunder, from among the options provided for in Section 3.7(A) of the Allstate Retirement Plan as determined by the Senior Vice President Corporate Human Resources and Administrative Operations. Any monthly retirement amount elected shall commence with the first day of the month following the month in which the participant's death occurs. If a lump sum payment is elected, such payment shall not be made until the date any monthly payment would commence under the provisions of the Allstate Retirement Plan or until the date a lump sum payment is made in lieu of such monthly payments. A participant or his/her beneficiary may (with the consent of the Senior Vice President Corporate Human Resources and Administrative Operations) elect for any purpose under the Supplemental Retirement Income Plan an option or form of payment other than the one elected for the purposes of the Allstate Retirement Plan. In the event a deceased participant had failed to designate a beneficiary hereunder, then payment shall be made to the participant's beneficiary under the Allstate Retirement Plan as determined pursuant to Section 3.7(D) of that plan.

* * *

Exhibit 10(iii)(24)

SPS TRANSACTION SERVICES, INC.

AMENDED AND RESTATED*

1992 EMPLOYEES STOCK PLAN

This plan shall be designated as the "SPS Transaction Services, Inc. 1992 Employees Stock Plan" (the "Plan").

Pursuant to the Plan, SPS Transaction Services, Inc. (the "Company") may from time to time, on or before February 21, 2002, grant to key employees of the Company or any of its subsidiaries (as defined in Rule 405 under the Securities Act of 1933 as in effect on February 21, 1992), officers, Affiliate Directors and individuals who perform significant services for the benefit of the Company or its subsidiaries, options ("options") to purchase common shares of the Company ("shares"), performance units ("performance units") to acquire shares, rights ("recognition rights") to receive shares, and rights ("payment rights") to grants under the Plan in payment, or upon surrender, of benefits under other or additional compensation arrangements. In addition, the Company shall grant to Non-Affiliate Directors options to purchase shares pursuant to a Formula Plan as hereinafter set forth. As used herein, "Affiliate Director" shall mean any director other than a Non-Affiliate Director of the Company and "Non-Affiliate Director" shall mean any director of the Company who is not, and who was not during the previous year, (i) a director of the Company, Sears Roebuck and Co. ("Sears") or their affiliates who was granted or awarded equity securities pursuant to the Plan (other than Formula Options (as defined)) or any other plan of the Company, Sears or their affiliates or (ii) an officer or employee of the Company, Sears or their affiliates.

Shares under the Plan may be unrestricted ("unrestricted shares") or may be subject to automatic cancellation upon such terms and conditions as may be determined by the Company ("restricted shares"). Grants under the Plan may be subject to such other terms and conditions, not inconsistent with the Plan, as may be determined by the Company.

The Plan shall become effective on February 21, 1992. The Plan is subject to the approval of a majority of the outstanding shares of common stock the Company. If the Plan is not so approved within one year after adoption by the Company, the Plan shall not come into effect and all grants or awards thereunder shall terminate.

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* Amended and Restated as of February 25, 1992.

Options

Options granted under the Plan may be either options which are intended to be incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), or any successor provision ("incentive stock options") or options which are not intended to be incentive stock options ("non-qualified options"), provided however, that any options granted pursuant to the Formula Plan shall be non-qualified stock options. The Company may provide for the exercise of options in installments or otherwise and for such periods from the date of grant as it may in its discretion determine; provided, however, that any incentive stock option granted under the Plan shall be exercisable for a period of not more than ten years from the date of grant.

Performance Units

Each performance unit under the Plan shall relate to a specified maximum number of shares, and shall be exchangeable for all or a portion of such shares, or cash (or such other form of consideration as may be determined by the Company equivalent in value thereto) in up to an amount equal to the fair market value of an equal number of unrestricted shares, at the end of such specified period (a "performance cycle") as may be established by the Company. The number of such shares which may be deliverable pursuant to such performance unit shall be based upon the degree of attainment over such performance cycle of such measures of the performance of the Company, its subsidiaries or the participant as may be established by the Company. The Company may provide for full or partial credit, prior to completion of such performance cycle or achievement of the degree of attainment of the measures of performance specified in connection with such performance unit, in the event of the participant's death, normal retirement, early retirement with Company approval, or total or permanent disability, or in such other circumstances as the Company may determine to be fair and equitable to the participant or in the interest of the Company.

Recognition Rights

Recognition rights under the Plan shall relate to a specified maximum number of shares granted as, or in payment of, a bonus, or to provide incentives or recognize special achievements or contributions.

Payment Rights

Payment rights under the Plan shall provide for the grant of a specified maximum number of shares or for the grant of options, performance units or recognition rights in payment of all or a portion of compensation under other or additional compensation arrangements of the Company or any of its subsidiaries or in

consideration of the surrender of all or a portion of such compensation.

Stock Appreciation Rights

The Company may, from time to time and upon such terms and conditions as it may in its discretion determine, grant any participant under the Plan, other than Non-Affiliate Directors, the right ("stock appreciation rights") to elect to surrender such participant's right to all or a portion of any restricted shares under the Plan, or to elect to surrender such participant's right to purchase, acquire or receive all or a portion of the shares subject to any option, performance unit, recognition right or payment right under the Plan, and receive, from the Company or any of its subsidiaries, with respect to each such share which is surrendered or as to which such participant's right to purchase, acquire or receive is surrendered, up to an amount in payment equal to the fair market value of such share on the date of surrender, less the unpaid portion of the price, if any, which such participant would be required to pay to purchase such share.

Tax Benefit Rights

The Company may also, from time to time and upon such terms and conditions as it may in its discretion determine, grant any participant under the Plan, other than Non-Affiliate Directors, the right ("tax benefit rights") to receive, from the Company or any of its subsidiaries, as a result of the receipt or exercise of any restricted or unrestricted share, option or stock appreciation right (except an incentive stock option or a stock appreciation right with respect thereto), performance unit, recognition right or payment right under the Plan, up to an amount, in cash, equal to the then applicable maximum statutory federal income tax rate for corporations multiplied by the amount of compensation, if any, realized by the participant for federal income tax purposes.

Tax Withholding Rights

The Company may also, from time to time and upon such terms and conditions as it may in its discretion determine, grant any participant, other than Non-Affiliate Directors, who is the holder of any restricted share, option, performance unit, recognition right, payment right, stock appreciation right or other right under the Plan the right ("tax withholding rights") to elect to have a portion of the unrestricted shares which such participant so holds or may so acquire withheld, or to deliver to the Company other shares, to satisfy all or a portion of the actual or estimated taxes payable by such participant, or to satisfy all or a portion of any tax withholding, as a result of the receipt or exercise of any restricted or unrestricted share, option or stock appreciation right (except an incentive stock option or a stock appreciation right with respect thereto), performance unit, recognition right or payment right under the Plan.

Formula Plan

Without further action by the Committee (as defined) or the Board (as defined), non-qualified stock options to purchase a number of shares equal to the quotient obtained by dividing (a) $40,000 by (b) the fair market value of one share on the date of grant (rounded up to the nearest whole share) shall automatically be granted to each Non-Affiliate Director immediately following each annual meeting of the Company's stockholders; provided that such date is at least six months following any previous grant date (the "Formula Options"). The purchase price per share for the Formula Options shall be equal to the fair market value per share on the date such Formula Option is granted. Any Formula Option shall not be exercisable until one year after the grant date of such option and shall terminate upon the earlier of (i) 90 days following the date on which the Non-Affiliate Director participant ceases to serve on the Board and (ii) five years after the grant date of such option. Formula Options may be exercised (in full or in part) only by written notice to the Company at its principal office accompanied by payment, in cash, of the full consideration for the shares of which they are exercised. The aggregate number of shares which may be acquired pursuant to this Formula Plan shall not exceed 5% of the aggregate number of unrestricted shares which may be acquired pursuant to the Plan.

Purchase Price

Except as provided in the following sentence, the purchase price per share to be specified in any option granted under the Plan shall not be less than the fair market value of such share on the date such option is granted. At its discretion, the Board or the Committee may issue options to a participant who has voluntarily surrendered and canceled a prior option at a price per share equal to or greater than the price per share of the prior option. For this purpose "fair market value" of a share as of any date shall be determined in such manner as shall be prescribed in good faith by the Board or the Committee. The Company may provide that such purchase price per share shall be paid to the Company by the participant in cash, shares, any other lawful form of consideration therefor, or a combination thereof, in full no later than the time of receipt of such share or in installments (which are payable not less than annually over a period of not more than five years from the date of purchase, provided that the aggregate amount of principal which has been repaid at any time shall not be less than one-fifth of such purchase price multiplied by the number of whole years since the date of purchase, and bear interest at a rate at least comparable to generally prevailing rates charged by lenders unaffiliated with the Company for loans of a similar nature and maturity) upon such terms and conditions (including the security, if any, therefor) as the Company may determine. The fair market value on the date of grant of restricted or unrestricted shares granted pursuant to any payment right (including shares subject to any recognition right granted pursuant to such payment

right but excluding any shares subject to any option or performance unit granted pursuant thereto) shall not be more than the value of the compensation under the other or additional compensation arrangements of the Company or its subsidiaries for which the form of payment is such payment right, or which is surrendered in consideration of such payment right. No purchase price shall otherwise be required to be specified in connection with any recognition right or performance unit granted under the Plan.

Payments to Participants

Payments to participants in connection with options, performance units, recognition rights, payment rights, stock appreciation rights or other rights under the Plan may be in the form of restricted or unrestricted shares, or in the form of cash (or such other form as may be determined by the Company equivalent in value thereto) in up to an amount equal to the fair market value of an equal number of unrestricted shares. In connection with cancellation or termination of any restricted share, option, performance unit, recognition right, payment right or other right of any participant under the Plan (whether pursuant to the terms of the Plan or any grant under the Plan, agreement between the Company and the participant, or otherwise), the Company may provide for payment to such participant of such amount as the Company may determine to be fair and equitable to the participant or in the interest of the Company.

Participants' Rights

Restricted shares, options, performance units, recognition rights, payment rights, stock appreciation rights and other rights (other than unrestricted shares) under the Plan shall be exercisable during a participant's lifetime only by the participant or the participant's guardian or legal representative and may not be sold, transferred, pledged or otherwise assigned by the participant. Certificates for restricted shares or for shares for which the purchase price is being paid in installments shall not be delivered to participants, and such shares may be represented by certificates deposited with, or held in book-entry form by, such person or persons as may be determined by the Company. A holder of restricted shares or of shares for which the purchase price is being paid in installments shall otherwise be entitled to all the rights (including voting and dividend rights) of a holder of an equivalent number of unrestricted shares. Any restricted share, option, performance unit, recognition right, payment right, stock appreciation right or other right (other than unrestricted shares) under the Plan may be canceled at any time with the consent of the participant and replacement restricted shares, options, performance units, recognition rights, payment rights, stock appreciation rights or other rights may be granted to such participant.

Plan Conditions

Each participant who is granted any restricted shares, options, performance units, recognition rights, payment rights, stock appreciation rights and other rights (other than unrestricted shares) may, at the discretion of the Company, be required to enter into a stock plan agreement ("Stock Plan Agreement") with the Company in a form provided by the Committee or the Board, including provisions that such participant shall abide by all of the terms and conditions of the Plan and such other terms and conditions as may be imposed by the Committee or the Board. The Plan shall not create any employment rights in any participant and the Company shall have no liability for terminating the employment of any participant before such participant becomes entitled to exercise any rights to which such participant may be entitled under the terms of the Plan. The Company, in its discretion, may postpone the issuance and/or delivery of shares under the Plan until the completion of such stock exchange listing, or registration, or other qualification of such shares under any state and/or federal law, rule or regulation as the Company may consider appropriate, and may require any participant to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of the shares in compliance with applicable laws, rules and regulations.

Vesting

Restricted shares may be exchangeable for unrestricted shares at such time and upon such terms and conditions as the Company may determine if the participant remains in the employ of or a director of the Company or its subsidiaries not less than six months after the earliest of the issuance of such restricted shares, the grant of any related option, performance unit, recognition right, payment right or stock appreciation right under the Plan or, in the case of restricted shares related to any payment right, the grant of the compensation under the other or additional compensation arrangement in respect of which such payment right is granted. No option (or stock appreciation right with respect thereto) under the Plan shall be exercisable, and no payment shall be made pursuant to any tax benefit right payable as a result of exercise of any option (or stock appreciation right with respect thereto) under the Plan, unless the participant remains in the employ of or a director of the Company or its subsidiaries until at least six months after the date of its grant. No payment (including payment in the form of restricted or unrestricted shares) shall be made pursuant to any performance unit under the Plan, and no payment shall be made pursuant to any tax benefit right related to any performance unit under the Plan, unless the participant remains in the employ of or a director of the Company or its subsidiaries until at least six months after the date of its grant.

Termination of Employment and Death

If a participant's employment is terminated for any reason whatsoever, any restricted shares, options, performance units, recognition rights, payment rights, stock appreciation rights and other rights (other than unrestricted shares) granted pursuant to the Plan outstanding at the time and all rights thereunder shall wholly and completely terminate except as provided below. All rights of a Non-Affiliate Director pursuant to Formula Options granted hereunder shall expire 90 days after the date of his termination as a director for any reason; provided, however, that the provisions below shall govern in the event of the normal retirement of a Non-Affiliate Director or the death or disability of such director. Upon the normal retirement of an employee or a director, any unvested portion of any outstanding restricted shares, options, performance units, recognition rights, payment rights, stock appreciation rights and other rights shall vest and expire in accordance with the terms of the Plan (and the related Stock Plan Agreement), notwithstanding such normal retirement. Upon the termination of an employee's employment or a director's tenure as a result of death or disability, all outstanding grants of restricted shares, options, performance units, recognition rights, payment rights, stock appreciation rights and other rights shall vest notwithstanding the original vesting schedule and shall expire upon the first anniversary of such termination.

Number of Shares Subject to Plan

The aggregate number of unrestricted shares which may be acquired pursuant to the Plan shall not exceed 600,000 (5% of which shall be allocated to the Formula Plan); provided, however, that if any options granted under this Plan expire unexercised or unpaid or are canceled, terminated or forfeited in any manner without the issuance of shares thereunder, the shares with respect to which such options were granted shall be available under this Plan provided that such shares have not afforded the forfeiting participants with benefits of ownership. Such shares may be either authorized and unissued shares, treasury shares or a combination thereof, as the Board or the Committee shall determine. The number of unrestricted shares acquired pursuant to the exercise of any stock appreciation right shall be deemed to be equal to the number of shares surrendered, or as to which such participant's right to purchase, acquire or receive is surrendered, in connection with such exercise, and, in the event that any portion of a payment to a participant upon exercise of any stock appreciation right is made in the form of restricted shares, the portion of the shares surrendered, or as to which such participant's right to receive, purchase or acquire is surrendered, which is related to payment in the form of restricted shares shall not be deemed to be unrestricted shares acquired pursuant to the Plan until such restricted shares become unrestricted. Upon unconditional vesting of the right of any participant to payment pursuant to any performance unit in cash or any other form (other than restricted

or unrestricted shares and other than payments pursuant to tax benefit rights), a number of unrestricted shares, equal to the portion of the shares subject to such performance unit to which such payment relates, shall be deemed to be acquired pursuant to the Plan in connection therewith. The number of shares delivered in full or partial payment of the purchase price specified in any option under the Plan shall be deducted from the number of shares delivered to the participant pursuant to such option for purposes of determining the number of unrestricted shares acquired pursuant to the Plan (provided, however, that in no event shall be aggregate number of shares issued or delivered pursuant to the exercise of incentive stock options under the Plan exceed 600,000).

Adjustments in Connection with Certain Events

The Company will make such provision with respect to the Plan, including without limitation adjustments in the number of shares which may thereafter be acquired under the Plan, the number of restricted shares outstanding under the Plan or the number of restricted or unrestricted shares subject to options, performance units, recognition rights, payment rights, stock appreciation rights or other rights outstanding under the Plan, or the purchase price specified in options, payment rights or other rights outstanding under the Plan, or for the termination or continuation of restricted shares, options, performance units, recognition rights, payment rights, stock appreciation rights or other rights outstanding under the Plan, as it may determine to be appropriate and equitable, in connection with any stock dividend, stock split, or reverse stock split or combination or other reduction in the number of issued common shares of the Company or in connection with any merger, consolidation, reorganization, sale or exchange of substantially all assets, change of control, spin-off or other distribution of any assets of the Company or any subsidiary or all or any portion of the interest of the Company in any subsidiary to the stockholders, or dissolution of the Company.

Cancellation of Options

By express written agreement a participant and the Board or the Committee may agree that any previously granted option is thereby canceled as of the date of the agreement and, at its discretion, the Board or the Committee may subsequently grant to such a participant who has voluntarily surrendered and canceled a prior option one or more new or substitute similar or different options under the Plan.

Administration

The Plan shall be administered by the Board of Directors of the Company (the "Board") or a committee of the Board appointed thereby (the "Committee"). The Board or, to the extent authorized by the Board, the Committee, shall, to the extent not inconsistent with the Plan, have the power to select participants to whom

options, performance units, recognition rights, payment rights, stock appreciation rights, tax benefit rights or tax withholding rights shall be granted; determine the purchase price, if any, in connection therewith or the basis for establishing such purchase price, whether such purchase price may be paid in installments, and the form of payment of such purchase price; determine the number of restricted or unrestricted shares to be granted or subject to options, performance units, recognition rights, payment rights, stock appreciation rights, tax benefit rights or tax withholding rights; determine the other terms and conditions, if any, to which any grant of shares, options, performance units, recognition rights, payment rights, stock appreciation rights, tax benefit rights or tax withholding rights under the Plan shall be subject and to amend, modify or waive any term or condition, including the vesting period, of any such grant (provided, however, that no such amendment or modification shall impair any outstanding right of any participant without the consent of such participant, except to the extent permitted under the terms and conditions of such grant as then in effect); and authorize any action of or make any determination by the Company and prescribe such provisions and interpretations in connection with the Plan as the Board or the Committee shall deem necessary or advisable for carrying out the purposes of the Plan. Each member of the Board or the Committee, and, to the extent provided by the Board or the Committee, any other person to whom duties or powers shall be delegated in connection with the Plan, shall incur no liability with respect to any action taken or omitted to be taken in connection with the Plan and shall be fully protected in relying in good faith upon the advice of counsel, to the fullest extent permitted under applicable law.

Relationship to Other Plans

Nothing in this Plan shall prevent the Company or any subsidiary from adopting or continuing other or additional compensation arrangements, including without limitation plans providing for the grant of restricted or unrestricted shares, options, performance units, recognition rights, payment rights, stock appreciation rights, tax benefit rights or tax withholding rights. Grants under the Plan may form a part of or otherwise be related to such other or additional compensation arrangements.

Amendment

The Board shall, in its discretion, have the power to amend the Plan from time to time, without stockholder approval to the fullest extent permitted under the Delaware General Corporation Law as in effect at the time of such amendment; provided, however, that stockholder approval shall be required for any amendment which (i) would materially increase the number of shares which may be acquired under the Plan, (ii) materially increase the benefits accruing to participants under the Plan or (iii) materially modify the requirements as to eligibility for participation in the Plan.

The Formula Plan shall not be amended more than once every six months, other than to comport with changes in the Internal Revenue Code, the Employee Retirement Income Security Act, or the rules thereunder.

Exhibit 11

**SEARS, ROEBUCK AND CO.
AND CONSOLIDATED SUBSIDIARIES
COMPUTATION OF EARNINGS PER SHARE**

($ in millions, except per common share data)	Year Ended December 31 1991	1990	1989
EARNINGS			
Income from continuing operations	$ 1,278.9	$ 891.7	$ 1,445.8
Discontinued operations	–	10.5	62.7
Net income	1,278.9	902.2	1,508.5
Preferred share dividends	(3.9)	–	–
Net income applicable to common shares	$ 1,275.0	$ 902.2	$ 1,508.5
WEIGHTED AVERAGE NUMBER OF COMMON SHARES			
Primary (2)	343.8	343.0	351.0
Dilutive effect of stock options – after application of treasury stock method (1)	1.5	0.1	1.8
Maximum number of common and common share equivalents outstanding	345.3	343.1	352.8
EARNINGS PER COMMON SHARE			
PRIMARY (2)			
Income from continuing operations	$ 3.71	$ 2.60	$ 4.12
Discontinued operations	–	0.03	0.18
Net income	$ 3.71	$ 2.63	$ 4.30
FULLY DILUTED (3)			
Income from continuing operations	$ 3.69	$ 2.60	$ 4.10
Discontinued operations	–	0.03	0.18
Net income	$ 3.69	$ 2.63	$ 4.28

(1) The maximum dilution of earnings per share assumes the exercise of all outstanding stock options. The treasury stock method has been applied based upon the higher of the closing price at fiscal year end or the average price of the common shares during the respective years.

(2) Primary earnings per common share is computed using the average number of shares outstanding since the maximum dilutive effect of all outstanding stock options is less than 3%.

(3) Fully diluted earnings per common share are not disclosed in the Company's financial statements in accordance with APB Opinion No. 15 since the maximum dilutive effect is less than 3%.

Exhibit 12(a)

COMPUTATION OF RATIO OF INCOME TO FIXED CHARGES
(EXCLUDING INTEREST ON SAVINGS DEPOSITS)
SEARS, ROEBUCK AND CO. AND CONSOLIDATED SUBSIDIARIES

	Year Ended December 31				
	1991	1990	1989	1988	1987
	(millions, except ratios)				
Fixed Charges					
Interest and amortization of debt discount and expense on all indebtedness	$3,252.0	$3,370.1	$3,224.1	$2,937.4	$2,720.6
Deduct interest on savings deposits	(734.4)	(718.7)	(717.3)	(544.5)	(471.5)
Add interest element implicit in rentals	325.4	304.0	269.1	254.9	223.8
	2,843.0	2,955.4	2,775.9	2,647.8	2,472.9
Interest capitalized	57.7	43.1	38.8	40.6	39.4
Total fixed charges	$2,900.7	$2,998.5	$2,814.7	$2,688.4	$2,512.3
Income					
Income from continuing operations	$1,278.9	$891.7	$1,445.8	$1,032.3	$1,726.2
Deduct undistributed net income of unconsolidated companies	(0.7)	10.2	(2.7)	0.8	(16.2)
	1,278.2	901.9	1,443.1	1,033.1	1,710.0
Add					
Fixed charges (excluding interest capitalized)	2,843.0	2,955.4	2,775.9	2,647.8	2,472.9
Income taxes (benefit)	192.5	(221.0)	352.8	53.5	348.1
Income before fixed charges and income taxes	$4,313.7	$3,636.3	$4,571.8	$3,734.4	$4,531.0
Ratio of income to fixed charges	1.49	1.21	1.62	1.39	1.80

Exhibit 12(b)

COMPUTATION OF RATIO OF INCOME TO FIXED CHARGES (INCLUDING INTEREST ON SAVINGS DEPOSITS) SEARS, ROEBUCK AND CO. AND CONSOLIDATED SUBSIDIARIES

	Year Ended December 31				
	1991	1990	1989	1988	1987
	(millions, except ratios)				
Fixed Charges					
Interest and amortization of debt discount and expense on all indebtedness	$3,252.0	$3,370.1	$3,224.1	$2,937.4	$2,720.6
Add interest element implicit in rentals	325.4	304.0	269.1	254.9	223.8
	3,577.4	3,674.1	3,493.2	3,192.3	2,944.4
Interest capitalized	57.7	43.1	38.8	40.6	39.4
Total fixed charges (including interest on savings deposits)	$3,635.1	$3,717.2	$3,532.0	$3,232.9	$2,983.8
Income					
Income from continuing operations	$1,278.9	$891.7	$1,445.8	$1,032.3	$1,726.2
Deduct undistributed net income of unconsolidated companies	(0.7)	10.2	(2.7)	0.8	(16.2)
	1,278.2	901.9	1,443.1	1,033.1	1,710.0
Add					
Fixed charges (excluding interest capitalized)	3,577.4	3,674.1	3,493.2	3,192.3	2,944.4
Income taxes (benefit)	192.5	(221.0)	352.8	53.5	348.1
Income before fixed charges and income taxes	$5,048.1	$4,355.0	$5,289.1	$4,278.9	$5,002.5
Ratio of income to fixed charges (including interest on savings deposits)	1.39	1.17	1.50	1.32	1.68

Exhibit 13.

SEARS, ROEBUCK AND CO.

1991 ANNUAL REPORT

SEARS Allstate® DEAN WITTER COLDWELL BANKER

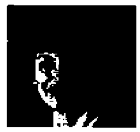
DIRECTORS

Edward A. Brennan
Chairman of the Board, President and Chief Executive Officer 1*,2,5

Warren L. Batts
Chairman and Chief Executive Officer, Premark International, Inc. 1,3,4,5,6

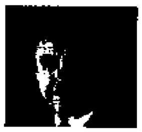
E. Mandell de Windt
Former Chairman of the Board and Chief Executive Officer, Eaton Corporation
1,3*,4,5

Sybil Collins Mobley
Dean, School of Business and Industry, Florida A & M University
2,4,6



Norma Pace
President of Economic Consulting and Planning Inc.
4*,5,6

Nancy Clark Reynolds
Vice Chairman of The Wexler Group, a unit of Hill and Knowlton, Inc.
2,4,6*



Clarence B. Rogers, Jr.
President and Chief Executive Officer, and a Director of Equifax, Inc.
1,2*,3,6

Donald H. Rumsfeld
Chairman and Chief Executive Officer, General Instrument Corporation
1,2,3,5*

Edgar B. Stern, Jr.
Chairman, Royal Street Corporation
1,2,3,5

Committee Assignments Key:
1. Member of Executive Committee 2. Member of Finance Committee 3. Member of Compensation Committee
4. Member of Audit Committee 5. Member of Nominating Committee 6. Member of Public Issues Committee
*Chairman of Committee

CORPORATE OFFICERS

Edward A. Brennan
Chairman of the Board, President and Chief Executive Officer

James M. Denny
Vice Chairman

Edward M. Liddy
Senior Vice President and Chief Financial Officer and Acting Comptroller

Charles F. Moran
Senior Vice President, Administration

David Shute
Senior Vice President, General Counsel and Secretary

Randolf H. Aires
Vice President, Governmental Affairs

Charles A. Carlson
Vice President, Technology Services

Edward J. Condon, Jr.
Vice President and Treasurer

Warren F. Cooper
Vice President, Human Resources

David P. Norum
Vice President, Taxes

Charles J. Ruder
Vice President, Public Affairs

Jane J. Thompson
Vice President, Planning

CORPORATE MANAGEMENT COMMITTEE

Arthur J. Hill
Chairman and CEO, Coldwell Banker Real Estate Group

Wayne E. Hedien
Chairman and CEO, Allstate Insurance Group

Philip J. Purcell
Chairman and CEO, Dean Witter Financial Services Group

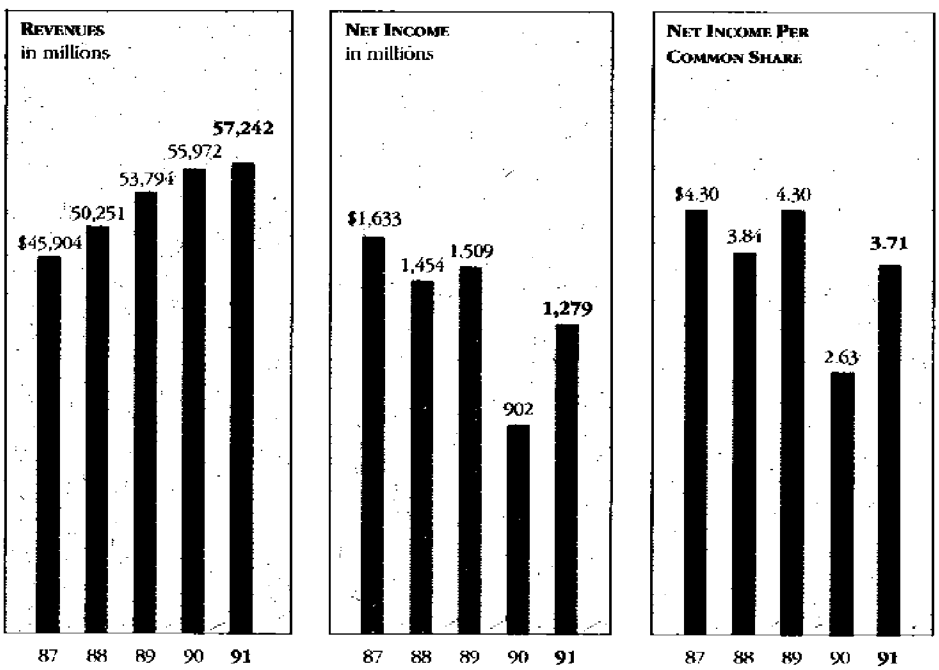
James M. Denny
David Shute

Edward A. Brennan

Jane J. Thompson
Charles F. Moran

FINANCIAL HIGHLIGHTS

illions, except per mmon share data	1991	1990	1989	1988	1987
evenues	**$ 57,242**	$55,972	$53,794	$50,251	$45,904
et income	**1,279**	902	1,509	1,454	1,633
ommon share dividends	**688**	686	702	758	756
er common share					
Net income	**3.71**	2.63	4.30	3.84	4.30
Dividends	**2.00**	2.00	2.00	2.00	2.00
ıvestments	**46,567**	38,675	33,705	29,136	25,120
otal assets	**106,435**	96,253	86,972	77,952	75,014
hareholders' equity	**14,188**	12,824	13,622	14,055	13,541



CONTENTS

CHAIRMAN'S MESSAGE TO SHAREHOLDERS

Whether helping our customers shop for general merchandise and services; insure their autos, homes or lives; buy or sell their homes; trade securities; or use our credit services, Sears people worked harder than ever in 1991 to provide the best in quality, value and service.

In a year which was noted for a tough economy and a low level of consumer confidence, all of our business groups had strong performance improvements over 1990.

1991 revenues were $57.2 billion, up 2.3% from 1990, while net income rose 42% to $1.3 billion or $3.71 per share, compared with $902 million or $2.63 per share in 1990.

Contributing significantly to the Company's earnings gains were improvements in underwriting results and investment income at Allstate, excellent performance of Dean Witter's Securities and Discover Card operations, the effect of cost-reduction programs in the Merchandise Group and improved operating performance by Coldwell Banker.

Major adverse factors, in addition to the U.S. recession, included a high level of catastrophe claims at Allstate and the impact of the depressed Canadian economy on the performance of the Merchandise Group's international operations.

Sears Merchandise Group

The primary emphasis for Merchandise Group operations continues to be expense reduction and revenue growth through stronger, more focused merchandising and marketing techniques and the achievement of significantly higher levels of customer service. The Group's increase in earnings to $486 million for the year was largely due to the combination of exceeding a cost-reduction goal of $600 million and the strong profit performance of the credit segment. Low levels of consumer confidence dampened sales of durable and big-ticket merchandise throughout the year, resulting in an overall 1.7% decline of $553 million in revenues to $31.4 billion.

Merchandise Group performance is expected to benefit from improving sales trends that began at year-end, as well as from continued expense reductions.

Allstate Insurance Group

Allstate's net income increased to $722 million in 1991. Improvements in underwriting results and investment income more than offset the planned decrease in realized capital gains and the absence of the nonrecurring tax benefit in 1990, despite the high level of catastrophe claims and a tough regulatory environment. Group revenues were up 6.3% to $19.4 billion.

Dean Witter Financial Services Group

Both Securities and Credit Services contributed to the Group's continuation of strong profit performance, with a 48% increase to $345 million for 1991 on top of its 40% improvement the prior year. Revenues rose 7.3% to $4.9 billion. The Securities segment performance was bolstered by management's focus on operating cost controls throughout the year. Discover Card continued to perform exceedingly well in earnings, new accounts and receivables growth.

Coldwell Banker Real Estate Group

The Group's 1991 earnings of $61 million, compared to $26 million in 1990, reflect greatly improved operating performance as well as record sales and income in the residential segment, despite the difficult housing market. Group revenues were up 17% to $1.6 billion. After-tax gains from the sale of properties were $101 million in 1991 compared with $118 million a year ago.

Capital Investments

During the year we invested more than $6.4 billion in our businesses. The major investment categories were Discover Card receivables, insurance portfolio investments, new stores, retail inventories, fixtures and repairs, residential mortgages and new systems. Total assets reached $106.4 billion at year-end. In the last five years, assets have grown by more than $40 billion.

The ability to fund this rate f growth represents one of e major strengths of the Comany with its current mix of usinesses. Approximately 10 ears ago, your Company idenfied financial services as growth area through the reainder of the century and mbarked upon a series of iitiatives designed to make ears, Roebuck and Co. a iajor provider of financial ervices to the American onsumer.

Today, we handle 11% of exting home sales, have the 3rd rgest retail brokerage sales orce, rank 6th in residential iortgage originations, insure ne of every eight homes and utomobiles and are the largst single provider of revolving onsumer credit.

These accomplishments ere made possible by drawg upon the consolidated ash flow of the Company. he ability to periodically raw cash from one or more f our businesses to fund the ccelerated growth of another a significant competitive adantage and a major benefit owing from the combination f our diverse businesses uner a single common ownerhip. We will continue to draw pon this strength in the fuire, and expect that this abily to reallocate resources mong our businesses will ead to creation of value for– nd delivery of better returns o–our shareholders.

oard Actions

The Company instituted sevral measures that we believe vill benefit shareholders and trengthen the governance of he Company.

These include new policies nd procedures regarding: condential voting in the election f directors; intensifying the process of electing new directors to the board; maintaining the ratio of outside to inside directors at three (or more) to one; having an outside director serve as chairman of the nominating committee of the board; and excluding officers and directors of the Company as Trustees of the Savings and Profit Sharing Fund of Sears Employees.

- James M. Denny was elected vice chairman, with the Allstate Insurance and Coldwell Banker Real Estate Groups reporting to him, while the Sears Merchandise and Dean Witter Financial Services Groups will continue to report to me. Edward M. Liddy was elected senior vice president and chief financial officer, succeeding and reporting to Mr. Denny.
- Forrest R. Haselton was elected president of retail in Sears Merchandise Group, succeeding Laurence E. Cudmore, who has retired.
- We will all miss the counsel and friendship of John S. Vivian, a 39-year Sears veteran who passed away early this year. John was a Sears vice president and had been the Corporate Comptroller since 1985.

Preferred Stock Offerings

The Company recently issued two new preferred stock securities. In November 1991, we issued $325 million of perpetual preferred shares and in early 1992, we issued approximately $1.2 billion of Mandatorily Exchangeable Preferred Shares (PERCS™), which will be exchanged for common shares in three years. Both issues enabled us to take advantage of attractive capital market conditions to reduce our debt, strengthen our balance sheet and provide new sources of funds for growth.

More background on these securities is provided in the Financial Objectives discussion which begins on page 8.

Outlook

A number of factors indicate a general economic recovery and an upturn in consumer confidence as the year progresses. Among the most significant are improving levels of general merchandise and existing home sales, along with heightened stock market activity which usually precedes a recovery.

Regardless of economic conditions, however, each of our businesses is taking steps to become more competitive, to deliver exceptional customer service and to improve its return on equity.

The performance of each business group in the severe 1991 economic environment gives us a high degree of confidence that we're well positioned for continued profitable growth.

The members of the Sears family came through again this year with great sacrifice and dedication. They worked harder than ever at all levels, and I appreciate their efforts. Credit for the Company's improvement over 1990 belongs to each of them, and I look forward to the future with confidence.

Edward A. Brennan
Chairman, President and
Chief Executive Officer
March 11, 1992

SEARS MERCHANDISE GROUP

Customer satisfaction is the sum total of how well we can provide the quality products, value and service our customers have every right to expect. It defines our strength and character and is the key to our future.

Financial Highlights
in millions

	1991	1990
Revenues	$31,432.9	$31,985.7
Assets	24,829.1	25,539.0
Receivables	13,537.4	15,230.4
Group Income	486.3	257.4

The Sears Merchandise Group made progress last year, but there is still much to be done. We are continuing to intensely focus on improving customer service and increasing revenues at an acceptable margin with a cost structure that generates an attractive shareholder return.

Our strategy is to position Sears as an integrated, powerful specialty merchant in each of our businesses: home appliances and electronics; home fashions; women's, men's and children's apparel; home improvements; and automotive.

As an integrated store, each of our businesses derives a significant benefit from the others, as well as from the Sears name and reputation for trust. For more than 100 years, Americans have had confidence in the quality of the goods and services that we have sold, and we will continue to leverage that great strength.

In today's highly competitive marketplace, each of our businesses-stores within a store-competes as a powerful specialty merchant market-by-market on product assortment, price, service and presentation. We know our competitors and customers better than ever before.

Our national and private label brands give us the ability to provide a wider assortment of products at competitive prices. We have improved the taste level of our apparel offering. We'll continue to add such trusted brands as Goodyear tires in automotive and Levi's Dockers and OshKosh in apparel to build even larger market shares.

Our marketing strategy is designed to create excitement with more store-wide events. This was demonstrated last fall, when we announced our "You Can Count On Me" marketing and customer service initiative during the Sears sponsored national broadcast of "E.T., The Extra-Terrestrial" on Thanksgiving night. Our "Best Buys of the Week" and other major event programs are geared to increase store traffic by offering extraordinary values to the consumer.

The retail store is the primary focal point of our strategy, and we have enough new and renovated stores in place that combine our new systems, presentation and marketing enhancements to confirm our direction through solid performance comparisons. Last year, we opened 25 stores, including the Salem, N.H., store pictured below, and renovated 20 others. We plan to build 14 new stores and renovate 72 existing stores in 1992.

In 1991, we reduced costs by $600 million. We will continue to simplify work processes and aggressively reduce expenses in every area of the company during 1992 and the years ahead. Reflecting this, we have implemented a new streamlined three-layer organization structure–home office, districts,

and stores with emphasis on developing teamwork top to bottom. The entire retail structure is designed to totally support our front-line managers and sales associates in better serving our customers.

The Catalog business remains an important, but challenging part of our overall strategy. To improve customer service and profitability, we are testing a new direct-to-home delivery program. We continue to refine our targeted marketing approach and reduce costs. While we expect an overall lower Catalog sales level, we anticipate improved profitability.

In our International businesses, Sears Mexico performed well, while Sears Canada's results were adversely affected by a depressed economic environment.

Our Credit operation had an excellent year, despite higher write-offs due to the economy. With more than 27 million active credit accounts, we continue to offer our customers a variety of credit alternatives.

We're confident that this strategy will result in a Sears that is responsive, highly competitive and a company the customer will perceive more than ever as delivering on its promise to provide excellence in service and value.

Along with enhanced merchandise selection, reformatted Sears stores are creating a more appealing shopping atmosphere through the use of softer lighting, wider aisles and improved levels of customer service.

ιLLSTATE INSURANCE GROUP

Allstate Insurance Company nded 1991 with higher reve- ues and significantly higher perating income than the pre ious year. Improvements in nderwriting results, despite igh catastrophe losses, and in- estment income more than ffset the planned decrease in ealized capital gains and unfa- orable claims cost trends, par- cularly for automobile acci- ent injury claims. Most of the nderwriting improvement vas due to favorable trends in ıe number of claims reported nd increased average premi- ms.

In 1991, Allstate increased ıe linkage between the com- ıany's strategic intentions and customer-focused quality ap- ıroach.

The decision to emphasize ustomer-focused quality was ased upon the most compre- ensive customer research in llstate's history. The focus of ıese quality initiatives is to im- ırove customer satisfaction, as ıeasured by policy renewal ates, and expense reduction ırough higher agent produc- vity and lower employee turn- ver.

Capitalizing on the substan- al systems enhancements ıade during the past five ears, the Allstate Personal roperty and Casualty opera- ion plans to introduce ırocesses and technology to urther support agents in meet- ıg customer expectations.

Focusing on the customer lso means providing security, acked by financial strength. llstate Life has statutory U.S. ssets of more than $19 bil- on, statutory surplus and in- estment valuation reserves of ıore than $1 billion, solid arnings and excellent finan- ial ratings.

Allstate Life is committed ɔ offering superior value hrough a broad range of prod- ıcts, while maintaining a trong capital structure.

Allstate Business Insurance undertook a number of important initiatives during 1991. Northbrook Property and Casualty, a Business Insurance division servicing independent agents, has adopted an aggressive restructuring program to streamline its operation and to become a specialist in targeted markets.

For business insurance products sold by Allstate agents, a major priority was to enhance the quality of its cornerstone product—the *Customizer*. The *Customizer*, consisting of combined comprehensive property and liability coverage, is a package specifically tailored to the needs of the small-business owner.

These strategies are designed to enhance customer satisfaction and loyalty, to enable the company to achieve its growth objectives and to increase shareholder value as measured by improving profits and returns on equity.

Auto crash survivors like these number in the tens of thousands, thanks to air bags. As a company long committed to managing our customers' risks, Allstate has been a supporter of air bag technology for more than two decades. Allstate has also advocated driver education and tough anti-drunk driving and state seat belt laws.

Forming lasting relationships with our customers is the ultimate test of everything we do. By focusing on what our customers value, we can build long-term relationships, create sustainable growth for each of our businesses, increase our capital base, reduce costs and enhance shareholder value.

Financial Highlights
in millions

	1991	1990
Revenues	$19,350.2	$18,199.1
Assets	45,775.8	39,950.3
Investments	38,861.1	33,509.9
Income from continuing operations before fresh start tax benefit	722.5	551 8
Group income	722.5	701.3

DEAN WITTER FINANCIAL SERVICES GROUP

Though change will sweep through our world and our industry in 1992 and beyond, some things will remain the same. At Dean Witter, we will continue to create the right products for the right clients at the right time. And we will measure success as we always have: one client at a time.

Financial Highlights
in millions

	1991	1990
Revenues	**$4,942.0**	$4,606.8
Group Income	**344.6**	232.9
Capital	**2,119.8**	1,864.9

Dean Witter Financial Services Group posted its best year ever in 1991. Group revenues increased to $4.9 billion, up 7.3% from $4.6 billion in 1990. Net income rose to $345 million, up 48% from $233 million. Return on equity increased to 17.3% from 13.0% in 1990. Securities, Discover Card, Sears Payment Systems and the Lending Services Division all posted sharply higher profits.

Securities

The Group's Securities business posted its third consecutive record year. Net income increased to $171 million, up 56.9% from $109 million in 1990. Among 1991's highlights: more Active Assets Accounts were opened in 1991 than in the previous four years combined and account executive productivity increased 20%.

Sharply lowered interest rates rekindled the market for equities in 1991. Accordingly, we implemented a highly focused investment banking strategy emphasizing asset management and equity public offerings. A strategic alliance forged at year-end with Trust Company of the West facilitates the creation of a second family of mutual funds to complement InterCapital's existing family.

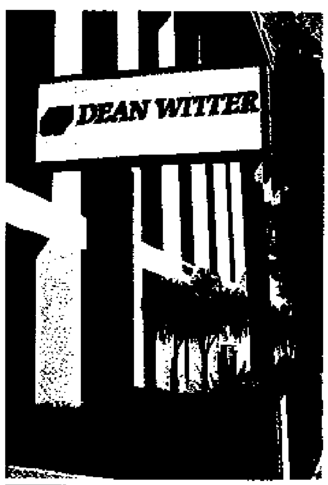
Credit Services

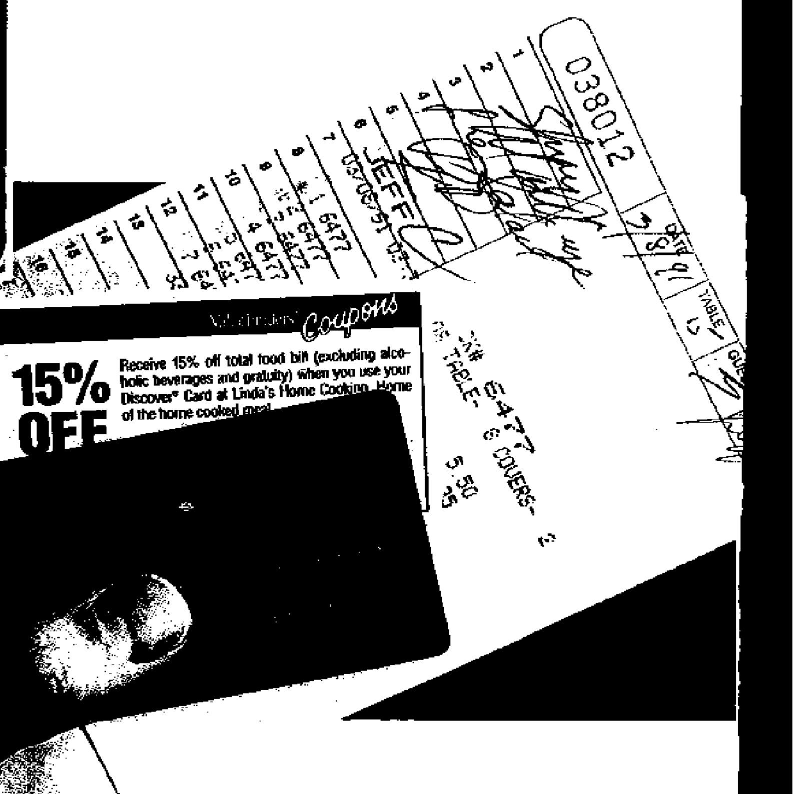
Despite an adverse economy, Credit Services earned a record $174 million, up 40.1% from $124 million in 1990.

Discover Card solidified its position as the value leader in the competitive credit card marketplace. Receivables increased from $11.6 billion to $14.7 billion. Merchant outlets increased to 1.4 million. Cardmembers rose from 37.8 million to 41.2 million, making it the leading domestic card issuer. Charge-offs worsened, but Discover Card risk management results were better than those of most of our competitors.

At year-end, we announced our intention to offer 26% of SPS Transaction Services to the public. This transaction was successfully completed on March 3, 1992. Common stock was offered at $16 per share, raising $50 million in growth capital.

In summary, 1991 was an excellent year for the Dean Witter Financial Services Group. Our strong results moved us well along toward our strategic goal of becoming one of the nation's leading providers of financial services.





Discover Card, which has emphasized value since its inception just six years ago, has secured a reputation in the 1990s as the credit card for value-conscious consumers.

COLDWELL BANKER REAL ESTATE GROUP

Coldwell Banker Residential Group

Overcoming a weak economic environment, Coldwell Banker Residential Group had a record year in income. Coldwell Banker Residential brokerage's presence grew in the Northeast with the acquisition of 99 offices of Schlott Realtors, based primarily in New Jersey, New York and Connecticut. Coldwell Banker Residential Affiliates, Inc. continued its expansion, growing from 142 offices in 1982 to more than 1,400 offices at the end of 1991. Coldwell Banker Relocation Services solidified its position as the second largest in the relocation industry and signed 55 major clients to relocation contracts.

Coldwell Banker Residential Group now has more than 1,900 offices and more than 40,000 sales associates, with operations in all 50 states, Puerto Rico and Canada.

Sears Mortgage Group

Sears Mortgage Corporation's (SMC) home mortgage originations increased more than 80% during 1991, with fundings increasing to $8.2 billion from $4.5 billion in 1990. Nearly one third of SMC's total volume came from Coldwell Banker customers, and the percentage of home buyers from Coldwell Banker wholly-owned offices using SMC increased to more than 25%.

Sears Savings Bank (SSB) purchased $2.6 billion in mortgage loans from SMC, significantly adding to SSB's portfolio of single family residential loans.

SMC's mortgage servicing portfolio grew 37% in 1991 to $20.6 billion, and servicing costs per loan were reduced by 18%.

Sears Mortgage Securities Corporation issued $2.2 billion in private mortgage-backed securities and increased its master servicing portfolio 87% to $5.6 billion by year-end.

Homart Development Co.

Homart continued to be a leading developer of commercial real estate through an active program of development for both regional malls and community centers.

At year-end, Homart owned and operated 27 regional malls, 12 with joint venture partners, and managed eight regional malls for others.

Construction continued toward the 1992 openings of two new malls: Moreno Valley Mall at TownGate, Moreno Valley, Calif., and Pembroke Lakes Mall, Pembroke Pines, Fla. The company also broke ground for North Point Mall, which is planned to open north of Atlanta in 1993 with Sears, Rich's and JCPenney as anchors. During 1991, Homart opened Bay City Mall, a regional shopping center in Bay City, Mich., with Sears, Prange's and Target as anchors.

Homart Community Centers, Inc. opened two centers: Pembroke Commons, Pembroke Pines, Fla., and Eastgate Mall Crossing, Cincinnati, Ohio.

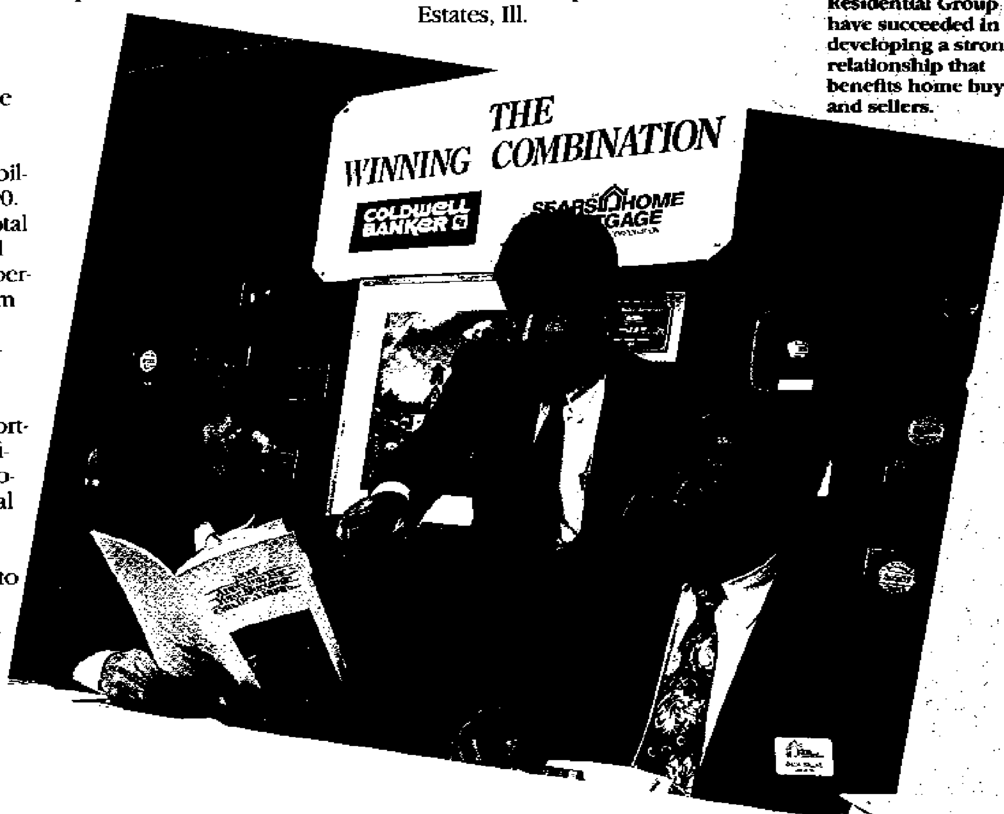
Homart owns and operates 21 office buildings, two as joint ventures. These buildings are on average, 82% leased, excluding Glendale City Center, a joint venture in Glendale, Calif., which opened in 1991 ahead of schedule with better than planned occupancy.

Homart is currently assisting with the sales, leasing and overall coordination of the development and marketing of Prairie Stone, the new Sears Merchandise Group headquarters and office park in Hoffman Estates, Ill.

1991 was productive and profitable for Coldwell Banker Real Estate Group with a continued focus on customer service, product growth, cost reductions and quality.

Financial Highlights
in millions

	1991	1990
Revenues	$1,613.3	$1,377.4
Assets	9,925.0	7,852.4
Investments	8,838.8	6,890.6
Group Income	60.6	25.5
in billions		
Mortgage Production Volume	8.2	4.5



Sears Mortgage Corporation and Coldwell Banker Residential Group have succeeded in developing a strong relationship that benefits home buyers and sellers.

FINANCIAL OBJECTIVES

This is the third year we have stated our financial objectives in the annual report. They remain unchanged but progress toward achieving them requires actions that vary from year to year in response to changes in the business environment.

Our goals are:

- To achieve above average returns on shareholders' equity;
- To borrow advantageously and to use leverage prudently; and
- To maintain a balanced dividend policy that makes our stock attractive for yield-oriented investors but also recognizes our potential to earn above average returns on our retained earnings.

Pursuit of these goals during the past year resulted in action designed to strengthen our balance sheet to fund the future growth of our businesses. In November 1991, we issued $325 million of perpetual preferred shares and early this year we issued approximately $1.2 billion of Mandatorily Exchangeable Preferred Shares (PERCS™). Issuance of these securities reflects our ability to productively use additional capital in our businesses and was a by-product of our goal to maintain a prudent balance between debt and equity funding. Although these security issues will dilute the earnings available to the common shareholder in the near term and will make improvement in our return on equity more difficult, we believe they are in the best long-term interest of our shareholders.

The issuance of the preferred shares reflects the following considerations:

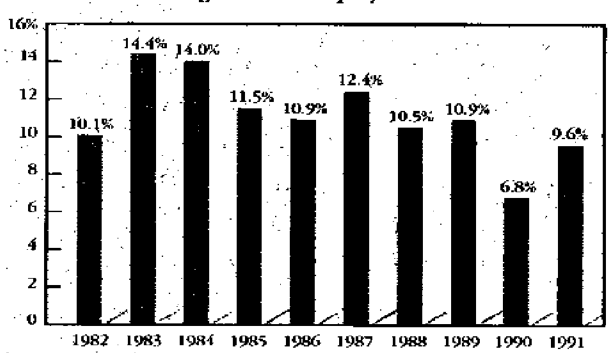
- The rapid and profitable growth of our financial services businesses- particularly Discover Card, Allstate Life Insurance and the Sears Mortgage business, each of which has grown at a compound rate in excess of 25% during the past three years–surpasses the ability of these businesses to fund that rate of growth.
- Our merchandising business, which funded much of the early growth of our financial services businesses, will warrant higher levels of capital investment than it has in the recent past.

The issue of preferred shares reflects our judgment that our equity capital needed bolstering both to sustain the future growth of our businesses and to ensure continued access to world debt markets at competitive costs.

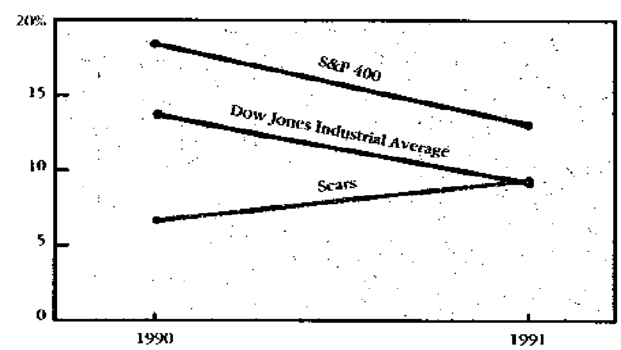
We are continuing a program to generate capital internally to fund the growth of our core businesses by recapturing capital from activities which are not critical to our central direction. As part of this program, we have:

- Sold a minority interest in the Sciyu Saison Group which was acquired several years ago as a result of our long-stand-

Return on Average Common Equity



Return on Equity



ing, ongoing and productive relationship with that Group;

- Announced our intention to sell Allstate Canada, a $1.0 billion asset insurance company; and
- Sold a minority interest in SPS Transaction Services, Inc. in February 1992, raising $50 million for SPS's future growth as a public company.

We will continue to review each of our businesses under that program and expect to divest other non-core operations in the future as opportunities develop.

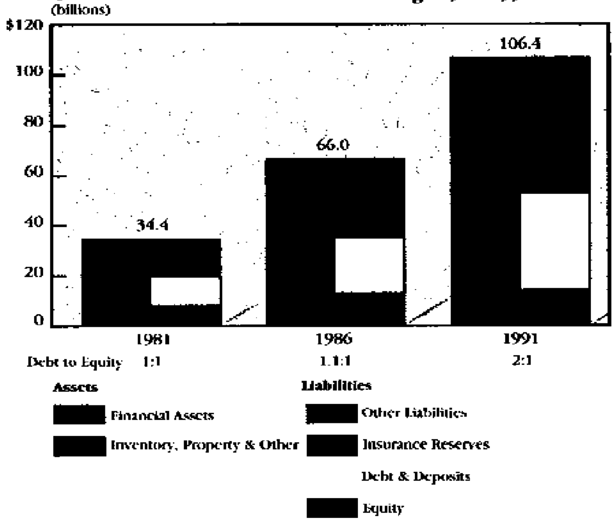
Our capital investment criteria also remain unchanged. They are:

- To pursue businesses and strategies that have the potential to provide returns in excess of our cost of capital and, therefore, to create value for our shareholders not available from comparable investments, and
- To strike a balance between the pursuit of value creation for our shareholders–which requires recognition by the financial markets of the competitive advantages we are creating and the potential future cash flows they will generate–and current annual profit performance as measured by return on shareholders' equity.

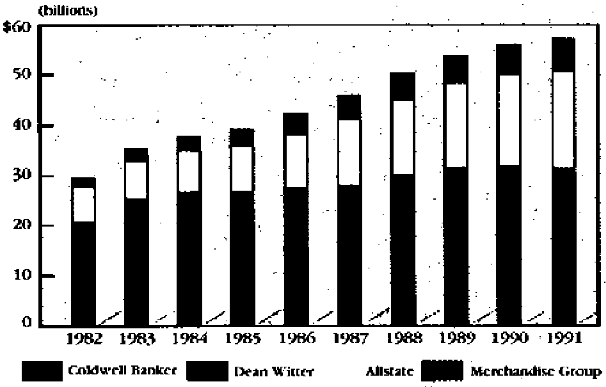
While we are making progress in eliminating unproductive and peripheral activities, we have been less successful in our attempt to deliver a competitive return on equity. The recession made 1991 a difficult year for American industry with the return on equity of the S & P 400 and the Dow Jones Industrial Average, adjusted to eliminate nonrecurring charges, falling to an estimated 13.2% and 9.5%, respectively, from 18.3% and 13.7% in 1990. Our return on equity rose to 9.6% in 1991 from 6.8% in 1990, but was still far short of our 15% target. Our improvement in 1991 reflects the contribution of the strong performance of our higher return, faster growing financial services businesses and the favorable effects of an aggressive expense reduction program in our merchandising business.

We are encouraged by our progress toward profitable revenue growth, expense reduction and asset management, and remain committed to achievement of a return on equity that compares favorably with the returns earned by businesses of comparable risk. Given our current mix of businesses, our return on equity goal remains in the 15% range, even though there has been a decline in the rate of return on risk-free investments.

Growth of Financial Assets and Leverage 1981-1991
(billions)



Revenue Growth
(billions)



SEARS, ROEBUCK AND CO.

Ten-Year Summary of Consolidated Financial Data

$ millions, except per common share data

Operating results	1991	1990	1989
Revenues	$ 57,242	$ 55,972	$ 53,794
Costs and expenses	52,659	51,808	48,869
Restructuring	—	265	—
Interest	3,252	3,370	3,224
Operating income	1,331	529	1,701
Other income	127	144	129
Income before income taxes, minority interest and equity income	1,458	673	1,830
Income taxes (benefit)			
Current operations	192	(82)	353
Fresh start and deferred tax benefits	—	(139)	—
Income from continuing operations	1,279	892	1,446
Income (loss) from discontinued operations	—	10	63
Cumulative effect of change in accounting for income taxes	—	—	—
Net income	1,279	902	1,509
Return on average common equity	9.6%	6.8%	10.9%

Financial position	1991	1990	1989
Investments	$ 46,567	$ 38,675	$ 33,705
Receivables	32,218	33,816	32,141
Property and equipment, net	6,219	5,850	5,407
Merchandise inventories	4,459	4,074	4,358
Total assets	106,435	96,253	86,972
Insurance reserves	30,221	25,750	20,847
Short-term borrowings	9,788	15,314	12,714
Long-term debt	19,170	12,636	10,036
Total debt	28,958	27,950	22,750
Percent of debt to equity	204%	218%	167%
Shareholders' equity	$ 14,188	$ 12,824	$ 13,622

Shareholders' common stock investment	1991	1990	1989
Book value per share (year-end)	$ 40.29	$ 37.38	$ 39.77
Shareholders (Profit Sharing Fund counted as single shareholder)	342,851	345,071	348,597
Average shares outstanding (millions)	344	343	351
Net income per share			
Income from continuing operations	$3.71	$2.60	$4.12
Income (loss) from discontinued operations	—	.03	.18
Cumulative effect of change in accounting for income taxes	—	—	—
Net income	3.71	2.63	4.30
Dividends per share	$2.00	$2.00	$2.00
Dividend payout percent	53.9%	76.0%	46.5%
Market price (high-low)	43½–24⅜	41⅞–22	48⅛–36½
Closing market price at year-end	37⅞	25⅜	38⅛
Price/earnings ratio (high-low)	12–7	16–8	11–8

Operating results reflect the group life-health business of Allstate Insurance Group and the commercial division of Coldwell Banker Real Estate Group as discontinued operations. See note 1 to the consolidated financial statements.

1988	1987	1986	1985	1984	1983	1982
$ 50,251	$ 45,904	$ 42,303	$ 39,349	$ 37,898	$ 35,257	$ 29,559
45,617	41,222	38,139	35,384	33,766	31,751	26,866
751	105	—	—	—	—	—
2,937	2,721	2,653	2,629	2,528	1,703	1,628
946	1,856	1,511	1,336	1,604	1,803	1,065
157	239	282	277	246	66	28
1,103	2,095	1,793	1,613	1,850	1,869	1,093
54	521	444	306	498	565	238
—	(172)	—	—	(60)	—	—
1,032	1,726	1,336	1,280	1,422	1,326	866
(122)	(93)	3	14	30	11	(5)
544	—	—	—	—	—	—
1,454	1,633	1,339	1,294	1,452	1,337	861
10.5%	12.4%	10.9%	11.5%	14.0%	14.4%	10.1%

$ 29,136	$ 25,120	$ 22,183	$ 19,249	$ 17,203	$ 15,434	$ 13,497
28,685	26,026	21,417	18,942	17,565	15,511	11,532
5,179	4,790	4,593	4,541	4,361	3,938	3,396
3,716	4,115	4,013	4,115	4,530	3,621	3,146
77,952	75,014	66,009	66,426	57,073	46,177	36,541
17,329	13,169	10,014	8,090	6,919	6,262	5,667
8,978	7,055	4,306	3,996	3,887	4,596	2,820
9,736	9,562	10,067	9,907	9,531	7,405	5,816
18,714	16,617	14,373	13,903	13,418	12,001	8,636
133%	123%	110%	118%	123%	123%	98%
$ 14,055	$ 13,541	$ 13,017	$ 11,776	$ 10,903	$ 9,782	$ 8,812

$ 37.75	$ 35.77	$ 33.90	$ 31.66	$ 29.46	$ 27.59	$ 25.08
351,999	328,446	319,686	326,201	340,831	339,644	350,292
379	378	369	363	358	353	350
$2.72	$4.55	$3.57	$3.47	$3.92	$3.76	$2.47
(.32)	(.25)	.01	.04	.08	.03	(.01)
1.44	—	—	—	—	—	—
3.84	4.30	3.58	3.51	4.00	3.79	2.46
$2.00	$2.00	$1.76	$1.76	$1.76	$1.52	$1.36
52.1%	46.5%	49.2%	50.1%	44.0%	40.1%	55.3%
46 32¼	59½–29¾	50⅜–35⅞	41⅛–30⅞	40⅜–29½	45⅛–27	32–15¾
40⅞	33½	39¾	39	31¾	37⅛	30⅛
12–8	14–7	14–10	12–9	10–7	12–7	13–6

Operating results and financial position for 1986 and thereafter may not be comparable to prior years due to adoption of new pension accounting rules.

Operating results and financial position for 1982 include Sears Canada Inc. on the equity method of accounting. Due to the purchase of a majority interest during 1983, the financial statements subsequent to Dec. 31, 1982 present Sears Canada Inc. on a consolidated basis.

SEARS, ROEBUCK AND CO.

FIVE-YEAR SUMMARY OF BUSINESS GROUP DATA

Sears, Roebuck and Co. is comprised of four principal business groups. Management believes that, while the consolidated financial statements reflect the total financial resources and operating results of the Company, analysis of the operations of the various industry components within the Company is facilitated by separate business group statements. Therefore, beginning on page 29 are supplemental summarized financial statements, including notes unique to the operations of each group, and analyses of operations and financial condition.

The following five-year summary of pertinent business group data, derived from the accompanying statements, includes a further refinement within industry segments. Corporate assets are principally intercompany receivables, Sears Tower, investments and subsidiaries not included in the business groups. Corporate operations include revenues and expenses of such subsidiaries, and items of an overall holding company nature including that portion of administrative costs and interest which is not allocated to the groups.

millions

Revenues	**1991**	1990	1989	1988	1987
Sears Merchandise Group					
Merchandising	**$24,757**	$25,093	$25,002	$24,252	$22,894
Credit	**2,735**	2,672	2,462	2,260	2,011
International	**3,941**	4,221	4,135	3,744	3,180
Sears Merchandise Group total	**31,433**	31,986	31,599	30,256	28,085
Allstate Insurance Group					
Property-liability	**16,582**	15,744	14,585	13,268	11,794
Life	**2,768**	2,455	2,218	1,656	1,261
Allstate Insurance Group total	**19,350**	18,199	16,803	14,924	13,055
Dean Witter Financial Services Group					
Securities	**2,501**	2,476	2,350	2,481	2,747
Credit Services	**2,441**	2,131	1,715	1,277	699
Dean Witter Financial Services Group total	**4,942**	4,607	4,065	3,758	3,446
Coldwell Banker Real Estate Group	**1,613**	1,377	1,448	1,444	1,399
Corporate	**226**	152	146	198	176
Intergroup transactions	**(322)**	(349)	(267)	(329)	(257)
Total	**$57,242**	$55,972	$53,794	$50,251	$45,904

Income before income taxes, minority interest and equity income					
Sears Merchandise Group					
Merchandising	**$ 163**	$ 77	$ 483	$ 400	$ 912
Credit	**634**	532	464	517	463
International	**14**	101	189	167	132
Restructuring	**—**	(265)	—	(751)	(105)
Sears Merchandise Group total	**811**	445	1,136	333	1,402
Allstate Insurance Group					
Property-liability	**302**	42	441	674	701
Life	**237**	261	244	192	191
Allstate Insurance Group total	**539**	303	685	866	892
Dean Witter Financial Services Group					
Securities	**282**	208	191	105	148
Credit Services	**274**	196	106	45	(192)
Dean Witter Financial Services Group total	**556**	404	297	150	(44)
Coldwell Banker Real Estate Group	**105**	44	108	119	186
Corporate and intergroup transactions	**(553)**	(523)	(396)	(365)	(341)
Total	**$1,458**	$ 673	$1,830	$1,103	$2,095

millions

Net income	1991	1990	1989	1988	1987
Sears Merchandise Group					
Merchandising	$ 90	$ 37	$ 292	$ 240	$ 503
Credit	394	330	288	325	263
International	2	45	67	66	36
Restructuring	—	(155)	—	(458)	(59)
Deferred tax benefits	—	—	—	—	44
Income tax accounting change	—	—	—	351	—
Sears Merchandise Group total	486	257	647	524	787
Allstate Insurance Group					
Property-liability	557	378	654	787	800
Life	165	174	161	127	117
Discontinued operations	—	10	—	(145)	(99)
Fresh start adjustment	—	139	—	—	128
Income tax accounting change	—	—	—	184	—
Allstate Insurance Group total	722	701	815	953	946
Dean Witter Financial Services Group					
Securities	171	109	100	59	76
Credit Services	174	124	66	29	(116)
Income tax accounting change	—	—	—	(2)	—
Dean Witter Financial Services Group total	345	233	166	86	(40)
Coldwell Banker Real Estate Group					
Continuing operations	61	26	64	79	123
Discontinued operations	—	—	63	23	6
Income tax accounting change	—	—	—	(12)	—
Coldwell Banker Real Estate Group total	61	26	127	90	129
Corporate and intergroup transactions	(335)	(315)	(246)	(199)	(189)
Total	$1,279	$ 902	$1,509	$1,454	$1,633

Assets	1991	1990	1989	1988	1987
Sears Merchandise Group					
Merchandising	$ 9,462	$ 8,731	$ 8,505	$ 8,111	$ 8,253
Credit	12,526	13,509	13,841	12,844	12,706
International	2,841	3,299	3,171	2,752	2,257
Sears Merchandise Group total	24,829	25,539	25,517	23,707	23,216
Allstate Insurance Group					
Property-liability	25,415	23,180	21,388	19,458	17,286
Life	20,361	16,770	12,622	10,250	7,234
Allstate Insurance Group total	45,776	39,950	34,010	29,708	24,520
Dean Witter Financial Services Group					
Securities	11,244	10,130	9,646	9,015	13,952
Credit Services	12,135	11,560	10,271	8,742	6,059
Dean Witter Financial Services Group total	23,379	21,690	19,917	17,757	20,011
Coldwell Banker Real Estate Group	9,925	7,852	7,228	6,780	6,551
Corporate	3,723	2,265	969	1,335	1,907
Intergroup eliminations and reclassifications	(1,197)	(1,043)	(669)	(1,335)	(1,191)
Total	$106,435	$96,253	$86,972	$77,952	$75,014

SEARS, ROEBUCK AND CO.

Consolidated Statements of Income

millions, except per common share data

	Year Ended December 31		
	1991	1990	1989
Revenues	**$57,242.4**	$55,971.7	$53,793.9
Expenses			
Costs and expenses	**52,659.3**	51,807.8	48,869.0
Restructuring (note 2)	—	264.4	—
Interest	**3,252.0**	3,370.1	3,224.1
Total expenses	**55,911.3**	55,442.3	52,093.1
Operating income	**1,331.1**	529.4	1,700.8
Other income	**127.0**	143.7	128.9
Income before income taxes, minority interest and equity income	**1,458.1**	673.1	1,829.7
Income taxes (benefit) (note 5)			
Current operations	**192.5**	(82.0)	352.8
Fresh start adjustment	—	(139.0)	—
Minority interest and equity in net income of unconsolidated companies	**13.3**	(2.4)	(31.1)
Income from continuing operations	**1,278.9**	891.7	1,445.8
Discontinued operations (note 1)			
Operating income, less income tax expense of $2.2	—	—	2.8
Gain on disposal, less income tax expense of $5.5 and $77.2	—	10.5	59.9
Net income	**$ 1,278.9**	$ 902.2	$ 1,508.5
Net income per common share, after allowing for dividends on preferred shares (note 14)			
Income from continuing operations	**$3.71**	$2.60	$4.12
Discontinued operations	—	.03	.18
Net income	**$3.71**	$2.63	$4.30
Average common shares outstanding	**343.8**	343.0	351.0

See accompanying notes and the summarized Group financial statements.

Analysis of Consolidated Operations

The consolidated statements of income present the operating results of all the businesses of Sears, Roebuck and Co. The business groups' relative contributions to the consolidated results can be seen in the summary of business group data on pages 12 and 13. Further analysis is enhanced by referring to the four business groups' summarized financial results and discussions beginning on pages 29, 34, 40 and 44. The following discussion focuses on the effects of those business groups on the consolidated operating results.

Consolidated revenues increased $1.27 billion or 2.3% in 1991, compared with an increase of $2.18 billion or 4.0% in 1990. The largest revenue producer continued to be the Sears Merchandise Group at $31.43 billion or 55% of 1991 consolidated revenues. Merchandise Group revenues decreased $552.8 million in 1991 compared with an increase of $386.5 million in 1990. The 1991 decrease was due to the recessionary domestic and Canadian economies and the increasingly competitive retail environment. Domestic Merchandising revenues declined $335.9 million in 1991 compared to a $91.3 million increase in 1990, while International revenues were $280.8 million lower in 1991 compared with a 1990 increase of $86.0 million. Higher average premiums and unit sales of property-liability insurance, along with improved investment income, resulted in an increase of $1.15 billion in Allstate Insurance Group revenues in 1991 to $19.35 billion, or 34% of consolidated revenues. In 1990, Allstate revenues increased $1.40 billion to $18.20 billion, or 33% of consolidated revenues. Dean Witter Financial Services Group revenues rose 7.3% in 1991 to $4.94 billion primarily from increased interest and fee revenues at Credit Services. Revenues at Dean Witter rose 13.3% in 1990, primarily from increased interest and fee revenues at Credit Services and higher trading and asset management revenues in Securities. Coldwell Banker Real Estate Group revenues increased 17.1% in 1991, primarily due to higher interest and mortgage servicing income, compared to a 4.9% revenue decline in 1990.

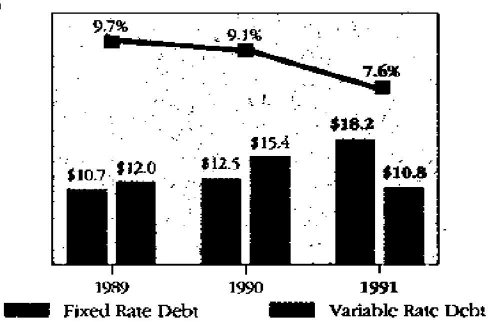
Operating income rose $801.7 million in 1991, with all business groups contributing to the increase. A $367.1 million increase in the Merchandise Group's operating income reflected lower selling and administrative expenses partially offset by lower revenues and gross margins at domestic Merchandising, improved operating income at Credit and a $264.4 million restructuring charge taken in 1990. Allstate's operating income increased $235.2 million as improvements in underwriting results and investment income more than offset a decrease in realized capital gains. Dean Witter's operating income rose 37.6% to $555.6 million on significantly higher results at both Credit Services and Securities. Coldwell Banker's operating loss, reflecting anticipated operating losses at Homart, was reduced to $52.7 million from $145.5 million due to improved results at Residential and Sears Mortgage Group.

Operating income in 1990 declined $1.17 billion compared with 1989. The Merchandise Group declined $733.6 million, reflecting a $264.4 million restructuring charge related primarily to severance programs, higher selling price reductions induced by competitive pressures and a weak economy, and increased operating expenses. Allstate's operating income declined $381.3 million as underwriting losses increased due to higher claim costs and the upward development of prior year catastrophe losses. Coldwell Banker's operating loss increased to $145.5 million due largely to lower Residential results, partially offset by improvement at Sears Mortgage Group. Dean Witter's increase of $106.9 million, due to significantly higher results at Credit Services, partially offset the decline in operating income at the other business groups.

Interest expense declined $118.1 million in 1991 due to lower average interest rates, partially offset by increased borrowings primarily attributable to increased short-term investments. Interest expense rose $146.0 million in 1990 on increased borrowings attributable to the prior year stock repurchase program, higher Discover Card financing requirements, increased short-term investments and the Company's Employee Stock Ownership Plan, offset in part by lower interest rates.

As shown in the graph below, the cost of borrowings fell to an average 7.6% at year-end 1991 versus 9.1% and 9.7% at Dec. 31, 1990 and 1989. The 1991 decrease resulted from a drop in both short-term and long-term interest rates from 1990 levels. A portion of the fixed rate debt in each year was converted from variable rate debt through the use of interest rate swaps and caps. Swaps accounted for $4.8, $3.1 and $3.0 billion and caps accounted for $2.2, $1.6 and $1.7 billion of the fixed rate debt at Dec. 31, 1991, 1990 and 1989.

Year-End Debt Levels and Interest Rates
(billions)



Other income decreased in 1991 due to lower gains from property sales, partially offset by lower joint venture losses and a gain on the sale of the Merchandise Group's investment in the Seiyu Saison Group. In 1990, other income was higher as increased gains from property sales and other miscellaneous income more than offset increased joint venture operating losses. A summary of other income by type follows:

millions	1991	1990	1989
Sale of property	$ 174.6	$ 247.5	$ 231.9
Sale of securities	42.4	—	—
Equity in joint ventures	(96.1)	(117.3)	(101.6)
Other gains and losses, net	6.1	13.5	(1.4)
Total	$ 127.0	$ 143.7	$ 128.9

Income tax expense was 13.2% of 1991 pretax earnings. The 1990 income tax benefit on operations was 12.2% of pretax earnings. In 1989, income tax expense was 19.3% of pretax earnings. These rates differed from the statutory rate mainly due to tax-exempt income and corporate dividends eligible for partial tax exclusion. The rates vary between years primarily due to the relative proportion of tax-exempt income included in pretax income. A fresh start tax benefit was also recognized in 1990 arising from a change in the tax treatment of salvage and subrogation reserves.

Income from continuing operations was $1.28 billion in 1991, a 43.4% increase, following a 38.3% decrease in 1990. The 1991 increase resulted from a $228.9 million improvement by the Merchandise Group, and increases at Dean Witter and Coldwell Banker of 48.0% and 137.6%, respectively. The 1990 decline resulted from reductions at all the groups except Dean Witter, which posted a $66.9 million, or 40.3%, increase.

Net income increased $376.7 million or 41.8% in 1991. The increase resulted primarily from a $228.9 million improvement in the Merchandise Group's net income, reflecting the $155.2 million after-tax restructuring charge taken in 1990, an increase in Dean Witter earnings of $111.7 million and a $35.1 million improvement in Coldwell Banker's earnings. Net income in 1990 declined $606.3 million mainly due to a $255.3 million drop in domestic Merchandising's net income before restructuring, the restructuring charge, unfavorable property-liability underwriting experience at Allstate mitigated in part by a $139.0 million fresh start tax benefit, and lower income from discontinued operations, partially offset by increased earnings at Dean Witter.

Net income per common share in 1991 was $3.71 compared with $2.63 and $4.30 in 1990 and 1989. In early 1992, the Company issued 28.75 million depositary shares, each representing one-fourth of a Series A Mandatorily Exchangeable Preferred Share. The Series A Preferred Shares will have a dilutive impact on net income per common share in 1992. Had these shares been issued on Jan. 1, 1991, with the proceeds used to retire short-term debt, 1991 net income per common share would have been reduced by approximately 5%.

Federal and state legislation and competitive conditions may affect the annual percentage rate imposed on credit card accounts. While the Company cannot predict the effect of future competitive conditions and legislation or the measures which the Company might take in response, a significant reduction in finance charge rates could reduce the yield on receivables, adversely impacting net income.

In December 1990, the Financial Accounting Standards Board issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The statement, which must be adopted no later than Jan. 1, 1993, will require the Company to accrue retiree health and life insurance benefits. See note 6 to the consolidated financial statements for the potential impact on the Company's operations.

Reported earnings have been impacted by inflation; however, there is no simple way of separating those effects. Competitive and regulatory conditions permitting, the Company modifies the prices charged for its goods and services in order to recognize cost changes as incurred or as anticipated. By also attempting to control costs and efficiently utilize resources, the Company strives to minimize the effects of inflation on its operations.

SEARS, ROEBUCK AND CO.

Consolidated Statements of Financial Position

millions	December 31 1991	1990
Assets		
Investments		
Bonds, mortgage-backed securities and redeemable preferred stocks, at amortized cost (market $32,183.8 and $26,749.9) (note 7)	**$ 29,941.6**	$ 26,292.3
Mortgage loans	**10,293.7**	7,209.3
Common and preferred stocks, at market (cost $2,880.6 and $2,433.7)	**3,420.2**	2,386.3
Real estate	**2,911.3**	2,787.2
Total investments	**46,566.8**	38,675.1
Receivables		
Retail customer	**13,537.4**	15,230.4
Discover Card	**8,724.2**	8,610.6
Brokerage	**3,447.6**	3,842.5
Insurance premium installments	**1,793.3**	1,726.3
Consumer finance notes	**1,026.8**	1,467.2
Other	**3,688.9**	2,939.0
Total receivables	**32,218.2**	33,816.0
Property and equipment, net	**6,218.9**	5,850.4
Cash and invested cash	**4,650.3**	3,967.3
Merchandise inventories	**4,459.4**	4,074.0
Securities purchased under agreements to resell	**2,681.8**	2,269.5
Trading account securities, at market	**2,377.9**	1,181.0
Cash segregated under government regulations	**1,333.9**	1,250.1
Deferred income taxes (note 5)	**909.1**	581.6
Other assets	**5,018.5**	4,587.8
Total assets	**$106,434.8**	$ 96,252.8
Liabilities		
Insurance reserves	**$ 30,220.5**	$ 25,750.2
Long-term debt (note 9)	**19,170.1**	12,636.4
Short-term borrowings (note 8)	**9,788.2**	15,314.0
Deposits and advances	**9,145.7**	7,882.9
Accounts payable and other liabilities	**9,081.9**	7,882.3
Unearned revenues	**6,321.6**	6,227.8
Brokerage payables	**4,168.2**	4,579.1
Securities sold under agreements to repurchase	**3,888.4**	2,656.2
Securities sold but not yet purchased, at market	**462.0**	500.1
Total liabilities	**92,246.6**	83,429.0
Commitments and contingent liabilities (notes 6, 10, 11, 13, 14)		
Shareholders' equity (note 14)		
Preferred shares ($1 par value, 3.25 shares outstanding in 1991)	**325.0**	—
Common shares ($.75 par value, 344.1 and 343.1 shares outstanding)	**289.5**	289.1
Capital in excess of par value	**2,153.4**	2,137.9
Retained income	**13,514.3**	12,927.1
Treasury stock (at cost)	**(1,746.4)**	(1,765.8)
Deferred ESOP expense (note 6)	**(739.4)**	(777.7)
Unrealized net capital gains (losses) on marketable equity securities	**365.5**	(12.9)
Cumulative translation adjustments	**26.3**	26.1
Total shareholders' equity	**14,188.2**	12,823.8
Total liabilities and shareholders' equity	**$106,434.8**	$ 96,252.8

See accompanying notes and the summarized Group financial statements.

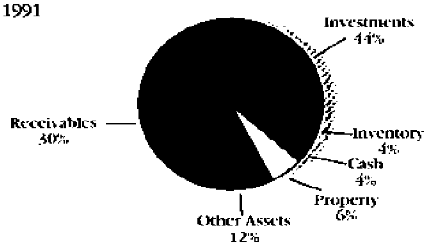
Analysis of Consolidated Financial Condition

The Company's significant financial capacity and flexibility is exemplified by the quality and liquidity of its assets, its ability to access multiple sources of capital and its diversified cash flows from operations. Below and on page 19 is a discussion of consolidated financial condition, liquidity and capital resources. Individual balance sheets, cash flow statements and supplemental analyses for the business groups can be found beginning on pages 31, 36, 41 and 45.

Financial Condition

The Company's balance sheet is highly liquid, with over 71% of total assets in bonds, mortgage-backed securities, common and preferred stocks, receivables, cash and invested cash and broker-dealer security positions.

Assets
at Dec. 31, 1991



Over 95% of the $25.3 billion in bonds are rated investment grade. Nearly all of the $4.6 billion of mortgage-backed securities are secured by residential mortgages and backed by quasi-governmental agencies. The aggregate market value of the bond and mortgage-backed security portfolio exceeded its book value by $2.2 billion at Dec. 31, 1991. The $10.3 billion mortgage loan portfolio is geographically and economically diversified with 59% residential mortgage loans and 41% commercial mortgage loans. At Dec. 31, 1991, 1.8% of the mortgage loan portfolio was nonperforming. In addition, approximately 2.5% of the portfolio consisted of loans that are current, but which have been identified as possibly nonperforming in the future. Common and preferred stocks are recorded at market value and are invested in over 600 issues, with an unrealized gain of $539.6 million at Dec. 31, 1991.

The retail customer and Discover Card receivable portfolios are geographically diverse and have net charge-offs well below their respective industry averages. Receivables sold through asset-backed securities totaled $14.8 billion at Dec. 31, 1991. Brokerage receivables of $3.4 billion are nearly all collateralized.

Invested cash is comprised of high grade short-term instruments. Merchandise inventories are primarily valued on the LIFO basis. Inventories would be $756.8 million higher at Dec. 31, 1991 if valued on the FIFO basis. Broker-dealer security positions are highly liquid and fluctuate greatly depending on market strategies. Intangible assets comprise less than 1% of total assets.

Liquidity and Capital Resources

The Company's financial flexibility was substantially enhanced by the issuance of two series of preferred shares. In November 1991, the Company issued 13 million depositary shares, each representing one-fourth of an 8.88% Preferred Share, First Series, at an offering price of $25 per share. This was followed in early 1992 with the issuance of 28.75 million depositary shares, each representing one-fourth of a Series A Preferred Share, at an offering price of $43 per share. The preferred share issuances serve to prudently manage our leverage and bolster equity capital needed both to sustain the rapid growth of our financial services businesses and ensure continued access to the world debt markets at competitive costs.

Maintaining access to various capital markets on a cost-effective basis continues to be an important factor in the Company's success. On Jan. 9, 1992, Moody's Investors Service placed the ratings of the Company's commercial paper, SearsCharge securitization transactions and short- and long-term obligations, as well as the rating of Allstate's insurance financial strength, under review with negative implications. Moody's current ratings for the Company are P-1 for commercial paper, Aaa for SearsCharge securitization transactions, A2 for long-term debt and Aa1 for Allstate's insurance financial strength. On Jan. 10, 1992, Standard & Poor's reaffirmed the Company's current ratings of A-1 for commercial paper, AAA for securitization transactions, A for long-term debt, AAA for Allstate Life and AA+ for Allstate Property-liability. In the event of an adverse determination by Moody's, earnings could be negatively impacted but the Company believes that its resources should continue to provide the flexibility to obtain sufficient funds on a competitive basis.

SEARS, ROEBUCK AND CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS

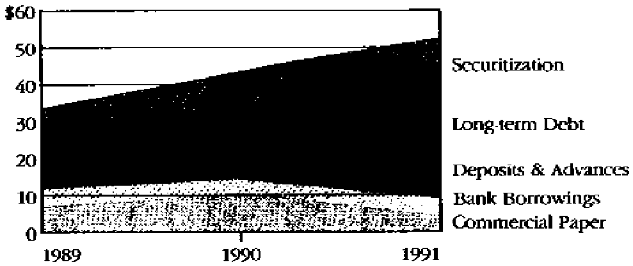
millions

	Year Ended December 31		
	1991	1990	1989
Cash flows from operating activities			
Net income	**$ 1,278.9**	$ 902.2	$ 1,508.5
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, amortization and other noncash items	**968.3**	857.0	792.4
Provisions for uncollectible accounts	**1,348.7**	1,079.9	727.1
Gain on sale of discontinued operation	**—**	—	(137.1)
Gains on sales of property and investments	**(213.6)**	(388.9)	(465.8)
Increase in insurance reserves	**4,470.3**	4,903.0	3,406.7
Change in deferred taxes	**(524.2)**	(871.0)	(149.2)
Decrease (increase) in retail customer receivables	**846.8**	(284.7)	(1,467.2)
Decrease (increase) in merchandise inventories	**(386.4)**	278.1	(629.1)
Change in net matched agreements to resell or repurchase securities	**1,206.8**	10.8	(77.2)
Increase in net trading account securities	**(1,235.0)**	(411.9)	(420.1)
Increase in other operating assets	**(613.9)**	(2,080.7)	(1,204.9)
Increase in other operating liabilities	**636.7**	1,837.3	1,139.7
Net cash provided by operating activities	**7,783.4**	5,831.1	3,023.8
Cash flows from investing activities			
Proceeds from sales and maturities of investments	**5,209.5**	3,256.7	3,904.4
Purchases of investments	**(8,906.5)**	(6,550.7)	(5,460.6)
Collections on and sales of mortgage-backed securities, mortgage loans and consumer finance notes	**2,267.9**	1,344.0	2,113.5
Purchases and originations of mortgage-backed securities, mortgage loans and consumer finance notes	**(5,377.9)**	(3,729.1)	(3,568.7)
Proceeds from sales of property and equipment	**84.0**	58.4	139.2
Purchases of property and equipment	**(1,227.9)**	(1,218.5)	(1,040.4)
Increase in Discover Card receivables	**(534.7)**	(725.8)	(2,654.0)
Net cash used in investing activities	**(8,485.6)**	(7,565.0)	(6,566.6)
Cash flows from financing activities			
Proceeds from long-term debt	**5,056.2**	3,316.7	1,426.3
Repayments of long-term debt	**(986.2)**	(828.2)	(1,412.3)
Proceeds from advances from FHLB	**1,318.0**	1,091.0	480.0
Repayments of advances from FHLB	**(1,311.0)**	(590.0)	(670.0)
Increase (decrease) in deposits	**1,255.8**	(804.2)	1,020.2
Change in net unmatched agreements to resell or repurchase securities	**(386.9)**	56.5	552.3
Net change in short-term borrowings, primarily 90 days or less	**(3,240.8)**	2,608.7	3,751.4
Repayments from (advances to) ESOP	**6.5**	(791.0)	(9.0)
Preferred shares issued	**315.1**	-	-
Common shares issued for employee stock plans	**45.2**	10.4	54.6
Common shares repurchased	**—**	—	(1,420.1)
Dividends paid to shareholders, net of reinvested amounts	**(687.3)**	(680.5)	(685.6)
Net cash provided by financing activities	**1,384.6**	3,389.4	3,087.8
Effect of exchange rate changes on cash	**.6**	(2.6)	(1.9)
Net increase (decrease) in cash and invested cash	**$ 683.0**	$ 1,652.9	$ (456.9)
Cash and invested cash at beginning of year	**$ 3,967.3**	$ 2,314.4	$ 2,771.3
Cash and invested cash at end of year	**$ 4,650.3**	$ 3,967.3	$ 2,314.4

See accompanying notes and the summarized Group financial statements.

Liquidity and Capital Resources continued

Major Funding Sources
(billions)



The Company issues commercial paper through Sears Roebuck Acceptance Corp. and Discover Credit Corp. to satisfy a portion of the Company's working capital requirements. The Company had total commercial paper outstanding of $12.3 billion at year-end 1991, compared with $13.9 and $12.2 billion at Dec. 31, 1990 and 1989. Commercial paper totaling $6.1, $3.7 and $3.7 billion was reclassified as long-term at Dec. 31, 1991, 1990 and 1989, respectively, with the support of syndicated credit agreements and from the issuance of Series A Preferred Shares in early 1992. The facilities to support the commercial paper program were strengthened as the Company increased its syndicated credit agreements by $1.5 billion to a total of $5.9 billion. The Company also entered into uniform credit agreements with individual banks totaling $3.6 billion, resulting in total credit facilities under contract of $9.5 billion. An additional $5.5 billion of bank credit lines were available to provide for the Company's short-term funding needs and to support commercial paper.

The Company issues retail and institutional CDs through Greenwood Trust Company and Sears Savings Bank to fund the Discover Card operations and the acquisition of mortgage loans, respectively. As of Dec. 31, 1991 the balance of deposits and advances was $9.1 billion, compared to $7.9 and $8.2 billion in 1990 and 1989, respectively.

The Company has continued to place financing emphasis on the issuance of long-term, fixed rate debt to take advantage of a favorable long-term interest rate environment and reduce repricing and refunding risk. Long-term debt totaled $19.2, $12.6 and $10.0 billion at Dec. 31, 1991, 1990 and 1989, respectively.

The Company has further enhanced its financial flexibility through the continued securitization of certain receivables. In 1991, $6.4 billion of asset-backed securities related to retail customer and Discover Card receivables were issued. As of year-end 1991, there were $14.8 billion of asset-backed securities outstanding compared to $9.2 and $3.8 billion at Dec. 31, 1990 and 1989.

Interest rate swaps and caps have been used to convert floating rate to fixed rate debt and to limit interest costs. The fixed rate to total debt ratio, including swaps and caps but excluding the effect of asset securitization, was 63%, 45% and 47% at year-ends 1991, 1990 and 1989. A summary of fixed and variable debt is provided on page 15.

Operating, Investing and Financing Activities

Cash flows from operating activities consist primarily of net income adjusted for certain noncash expense items, including depreciation and the provision for uncollectible accounts, increases in insurance reserves and changes in receivables, inventories and deferred taxes. Cash provided by operations rose in 1991 due to a decrease in owned retail customer receivables, changes in deferred taxes and increases in net income adjusted by noncash items, partially offset by an increase in merchandise inventories. The decrease in retail customer receivables was attributable to an increase in balances securitized. The reduced growth in deferred tax assets resulted from the final payment in 1990 of the change in tax accounting for retail charge card receivables under the Tax Reform Act of 1986. The increase in inventory was influenced by the relatively low inventory position in 1990 and suppressed retail demand at year-end 1991. In 1990, cash from operations rose on increased Allstate insurance reserves, decreased merchandise inventories and reduced growth in owned retail customer receivables resulting from higher securitizations. These decreases were partially offset by the change in deferred taxes caused by the 1990 fresh start benefit and increased allowances for uncollectible accounts.

The Company's most significant investing activities were the growth of Allstate's investment portfolio, Discover Card receivables, purchases of property and equipment and, in 1991, Coldwell Banker's mortgage loan portfolio. Increases in Allstate's investments and mortgage loans were funded by insurance premium receipts and the sale of investment-oriented products. Growth in Discover Card receivables, funded by short-term and medium-term debt and deposits, was significantly reduced in 1991 and 1990 due to the sale of receivables through the use of asset-backed securities. The 1991 increase in Coldwell Banker's mortgage loans was primarily funded by deposits and short-term borrowings.

The change in cash flows from financing activities in 1991 primarily reflected the Company's emphasis placed on reducing the refunding and repricing risk on its debt. Cash required from financing activities decreased from 1990 due to the increase in cash provided by operations and the lower growth in invested cash. In 1990, the major financing emphasis was to lengthen the term of the Company's debt funding, including a 15-year $850 million mortgage on the Sears Tower and approximately $1.5 billion of intermediate-term debt. An increase in short-term borrowings was largely offset by the growth in invested cash and a decline in deposits. Invested cash in both years provided liability management flexibility for the Company's commercial paper programs and augmented backup credit facilities. The Company loaned $800 million to the Employee Stock Ownership Plan of The Savings and Profit Sharing Fund of Sears Employees for the open market purchase of 21.9 million Sears common shares. In addition, 32.1 million common shares were repurchased directly by the Company during 1989.

The Company paid common dividends of $2.00 per common share in 1991, the 56th consecutive year of payout. The payment of common dividends is dependent upon the Company's earnings and internal investment opportunities.

SEARS, ROEBUCK AND CO.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

						Year Ended December 31
	1991	1990	1989	**1991**	1990	1989
	$ millions			shares in thousands		
Preferred shares–$1.00 par value, 50 million shares authorized						
Issued during year (note 14)	**$ 325.0**	$ —	$ —	**3,250.0**	—	—
Balance, end of year	**$ 325.0**	$ —	$ —	**3,250.0**	—	—
Common shares–$.75 par value, 1 billion shares authorized; issued as follows:						
Balance, beginning of year	**$ 289.1**	$ 288.8	$ 287.7	**385,512.0**	385,075.8	383,552.8
Stock options exercised and other changes	**.4**	.3	1.1	**544.9**	436.2	1,523.0
Balance, end of year	**289.5**	289.1	288.8	**386,056.9**	385,512.0	385,075.8
Capital in excess of par value						
Balance, beginning of year	**2,137.9**	2,128.2	2,071.6			
Stock options exercised and other changes	**15.5**	9.7	56.6			
Balance, end of year	**2,153.4**	2,137.9	2,128.2			
Retained income						
Balance, beginning of year	**12,927.1**	12,711.2	11,904.2			
Net income	**1,278.9**	902.2	1,508.5			
Preferred share dividends	**(3.9)**	—	—			
Common share dividends ($2.00 per share)	**(687.8)**	(686.3)	(701.5)			
Balance, end of year	**13,514.3**	12,927.1	12,711.2			
Treasury stock (at cost)						
Balance, beginning of year	**(1,765.8)**	(1,771.8)	(382.0)	**(42,427.3)**	(42,573.2)	(11,230.1)
Reissued under incentive compensation plans	**19.4**	—	—	**465.9**	—	—
Reissued under dividend reinvestment plan and other	**—**	6.0	30.3	**—**	145.9	769.8
Purchased during year	**—**	—	(1,420.1)	**—**	—	(32,112.9)
Balance, end of year	**(1,746.4)**	(1,765.8)	(1,771.8)	**(41,961.4)**	(42,427.3)	(42,573.2)
Deferred ESOP expense (note 6)						
Balance, beginning of year	**(777.7)**	(9.0)	—			
Advances	**—**	(791.0)	(9.0)			
Reductions	**38.3**	22.3	—			
Balance, end of year	**(739.4)**	(777.7)	(9.0)			
Unrealized net capital gains (losses) on marketable equity securities						
Balance, beginning of year	**(12.9)**	255.0	170.0			
Net increase (decrease)	**378.4**	(267.9)	85.0			
Balance, end of year	**365.5**	(12.9)	255.0			
Cumulative translation adjustments						
Balance, beginning of year	**26.1**	19.7	3.4			
Net unrealized gain during year	**.2**	6.4	16.3			
Balance, end of year	**26.3**	26.1	19.7			
Total common shareholders' equity and shares outstanding	**$13,863.2**	$12,823.8	$13,622.1	**344,095.5**	343,084.7	342,502.6
Total shareholders' equity	**$14,188.2**	$12,823.8	$13,622.1			

See accompanying notes and the summarized Group financial statements.

Notes to Consolidated Financial Statements

Summary of significant accounting policies

Basis of presentation

The consolidated financial statements include the accounts of Sears, Roebuck and Co. and all significant domestic and international companies in which the Company has more than a 50% equity ownership.

Included as an integral part of the consolidated financial statements on pages 12 and 13 are the summary of business group data and, beginning on page 29, separate summarized financial statements and notes for each of the Company's business groups as well as the significant accounting policies unique to each group. Although not a part of the financial statements, also included with the consolidated statements and the summarized group statements are unaudited analyses of results and financial condition and a ten-year summary of consolidated financial data.

Certain reclassifications have been made in the 1990 and 1989 financial statements to conform to current accounting classifications.

Basis for assignment of debt

Debt and the related interest expense have been assigned to the business groups as incurred by those groups. Corporate debt is legally the responsibility of Sears, Roebuck and Co., Sears Roebuck Acceptance Corp. (SRAC) or Sears Overseas Finance N.V. (SOFNV). A portion of the pooled Corporate debt is allocated to Sears Merchandise Group, principally to finance domestic customer receivables, to Dean Witter Financial Services Group to finance a portion of Discover Card receivables and to Coldwell Banker Real Estate Group, primarily to finance its mortgage banking operation. The remaining portion of Corporate debt has generally not been allocated to the business groups but has been combined with internally generated funds for Corporate operations and investments. The average cost of the pooled Corporate debt was 8.2%, 9.4% and 10.3% in 1991, 1990 and 1989, respectively. On a consolidated basis, the Company paid interest of $2.9, $3.4 and $3.3 billion in 1991, 1990 and 1989, respectively.

Income taxes

Effective Jan. 1, 1991 the Company adopted SFAS No. 109, "Accounting for Income Taxes." Adoption of this statement reduced income tax expense by $134.0 million in 1991, primarily due to the recognition of deferred tax assets previously not recorded under SFAS No. 96. No cumulative effect adjustment was required for the adoption of SFAS No. 109 due to the Company's previous use of the liability method.

The consolidated federal income tax return of Sears, Roebuck and Co. includes results of the domestic operations of the business groups. Tax liabilities and benefits are allocated as generated by the respective business groups, whether or not such benefits would be currently available on a separate return basis. U.S. income and foreign withholding taxes are not provided on unremitted earnings of international affiliates which the Company considers to be permanent investments. The cumulative amount of unremitted income and the taxes which would be paid upon remittance of those earnings totaled $534.9 and $216.8 million, respectively, at Dec. 31, 1991.

Cash and invested cash

Cash and invested cash is defined to include all highly liquid investments with maturities of three months or less.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is provided principally by the straight-line method over the estimated useful lives of the related assets.

Goodwill

Other assets include goodwill of $527.5 and $526.2 million at Dec. 31, 1991 and 1990, respectively. Goodwill represents the excess of purchase price over fair value of the net assets of businesses acquired and is amortized on a straight-line basis over a period not exceeding 40 years.

1. Discontinued operations

During 1988, the Company adopted plans to discontinue the group life-health business of Allstate Insurance Group and the commercial division of Coldwell Banker Real Estate Group. The group life-health operation was terminated effective Jan. 1, 1989 and the Coldwell Banker commercial division was sold during 1989.

2. Restructuring

During the fourth quarter of 1990, the Merchandise Group recorded a pretax charge of $264.4 million, net of profit sharing benefit, related primarily to severance programs in the domestic Merchandising and Sears Canada operations.

3. Supplementary income statement information

millions	Year Ended December 31		
	1991	1990	1989
Advertising costs (excluding catalog)	$1,366.5	$1,392.5	$1,325.1
Maintenance and repairs	366.8	343.4	360.9
Taxes, other than payroll and income:			
Property	294.9	262.2	245.4
Premium	348.0	311.8	304.9
Other	228.1	198.1	219.0
Provisions for uncollectible receivables	1,319.6	1,050.0	688.7
Realized foreign currency exchange gains (losses), net of profit sharing and income taxes	1.1	(3.3)	(2.3)
Interest capitalized	56.8	43.1	38.8

4. Corporate

Corporate operations include revenues and expenses which are of an overall holding company nature, including that portion of administrative costs and interest which is not allocated to the Company's business groups. The Corporate statements of income consisted of:

millions	Year Ended December 31		
	1991	1990	1989
Revenues	$ 226.2	$ 151.9	$ 146.1
Interest expense	565.0	433.9	290.5
Operating expenses	120.1	108.3	143.3
Operating loss	(458.9)	(390.3)	(287.7)
Other loss	(78.8)	(112.7)	(99.8)
Income tax benefit	211.5	200.4	146.4
Net Corporate expense	(326.2)	(302.6)	(241.1)
Intergroup eliminations	(8.9)	(12.3)	(5.2)
Corporate and other	(335.1)	(314.9)	(246.3)
Equity in net income of business groups	1,614.0	1,217.1	1,754.8
Consolidated net income	$1,278.9	$ 902.2	$1,508.5

5. Income Taxes

Income before income taxes, minority interest and equity income follows:

millions	Year Ended December 31		
	1991	1990	1989
Domestic	$1,369.7	$587.0	$1,631.7
Foreign	88.4	86.1	198.0
Total	$1,458.1	$673.1	$1,829.7

Federal, state and foreign taxes follows:

millions	Year Ended December 31		
	1991	1990	1989
Federal income tax			
Current	$ 596.5	$ 538.1	$ 464.0
Deferred	(494.4)	(684.8)	(264.8)
State income tax			
Current	92.4	108.6	50.5
Deferred	(36.3)	(82.3)	9.8
Foreign income tax			
Current	2.0	30.1	76.2
Deferred	32.3	8.3	17.1
Financial statement income tax provision (benefit)–current operations	192.5	(82.0)	352.8
Fresh start	—	(139.0)	—
Financial statement income tax provision (benefit)	$ 192.5	$(221.0)	$ 352.8

A reconciliation of the statutory federal income tax rate to the effective rate is as follows:

	Year Ended December 31		
	1991	1990	1989
Statutory federal income tax rate	34.0 %	34.0 %	34.0 %
State income taxes, net of federal taxes	2.5	2.6	2.2
Tax-exempt income	(26.0)	(53.4)	(18.6)
Dividends received exclusion	(1.5)	(3.1)	(1.3)
Other	4.2	7.7	3.0
Effective tax rate–current operations	13.2	(12.2)	19.3
Fresh start benefit	—	(20.6)	—
Effective income tax rate (benefit)	13.2 %	(32.8)%	19.3 %

Deferred taxes are recorded based upon differences between the financial statement and tax bases of assets and liabilities and available tax credit carryforwards. The following deferred taxes are recorded:

Assets/(Liabilities) in millions	December 31	
	1991	1990
Insurance loss reserves	$ 765.0	$ 645.4
Unearned maintenance income	321.8	330.4
Loan loss reserves	471.4	356.0
Unearned insurance premiums	337.3	271.2
Alternative minimum tax credit	157.4	54.7
Other deferred tax assets	1,086.0	984.4
Fixed asset depreciation	(696.8)	(649.6)
Policy acquisition costs	(450.1)	(413.3)
Prepaid pension	(197.8)	(155.9)
Unrealized securities (gains)/losses	(183.6)	15.8
Other deferred tax liabilities	(701.5)	(857.5)
Total	$ 909.1	$ 581.6

Income taxes of $595.8, $752.7 and $471.8 million were paid in 1991, 1990 and 1989, respectively. Payments in 1991 and 1990 include $77.0 and $80.4 million attributable to the alternative minimum tax. These payments generate tax credits which can be carried forward indefinitely. Tax expense of $16.0 million was recognized in 1991 for tax benefits allocated directly to capital.

6. Benefit plans

Expenses for retirement and savings-related benefit plans were as follows:

millions	Year Ended December 31		
	1991	1990	1989
Savings and Profit Sharing Fund of Sears Employees			
Defined Contribution	$ 60.5	$ 28.1	$ 88.6
Additional ESOP	29.6	29.3	—
Pension plans	90.2	105.1	88.0
Retiree insurance benefits	155.6	164.9	143.0
Other plans	28.9	23.7	27.1
Total	$364.8	$351.1	$346.7

Profit Sharing Fund

Most domestic employees, excluding primarily those of the Securities operations of Dean Witter Financial Services Group, the Residential operations of Coldwell Banker Real Estate Group and Western Auto Supply Company, are eligible to become members of The Savings and Profit Sharing Fund of Sears Employees (the Fund). Beginning in 1991, the Company contributes up to 35% of eligible deposits by Fund participants, and at the Company's discretion an additional contribution of up to 35% of eligible deposits. Total Company contributions cannot exceed 6% of consolidated income, as defined, before federal income taxes and profit sharing contributions. Prior to 1991, the Company contributed 6% of consolidated income, as defined, before federal income taxes and profit sharing contributions. The 1991 contribution was allocated to the business groups and Corporate based on eligible deposits made by employees of the participating companies. The 1990 and 1989 contributions were allocated based on 6% of the participating company's respective operating results.

The Fund includes an Employee Stock Ownership Plan (the ESOP) adopted in 1989 to prefund a portion of the Company's anticipated contribution through 2004. The Company loaned the ESOP $800 million which it used to purchase 21.9 million Sears common shares in the open market. The loan will be repaid with dividends on ESOP shares and Company contributions. The additional ESOP expense included in the benefit plan expense table above is computed as follows:

millions	Year Ended December 31,	
	1991	1990
Interest expense recognized by ESOP	$ 73.0	$ 50.5
Less dividends accrued on ESOP shares	(46.9)	(31.1)
Cost of shares allocated to employees and plan expenses	42.4	29.1
ESOP expense	68.5	48.5
Less market value of shares allocated	(38.9)	(19.2)
Additional ESOP expense	$ 29.6	$ 29.3

The Company contributed $32.6 and $12.8 million to the ESOP in 1991 and 1990, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

Pension plans

Substantially all domestic full-time and certain part-time employees are eligible to participate in noncontributory defined benefit plans after meeting age and service requirements. Substantially all Canadian employees are eligible to participate in contributory defined benefit plans. Pension benefits are based on length of service, either average annual compensation or final average annual compensation and, in certain plans, Social Security or other benefits. Funding for the various plans of the Company is determined using various actuarial cost methods, and amounted to $117.0, $141.7 and $142.5 million for 1991, 1990 and 1989, respectively.

Pension expense was comprised of the following:

millions	1991	1990	1989
Benefits earned during the period	$ 225.8	$ 258.4	$ 224.2
Interest on projected benefit obligation	422.1	416.0	387.6
Actual return on plan assets	(1,130.4)	120.2	(862.8)
Net amortization and deferral	572.7	(689.5)	339.0
Pension expense	$ 90.2	$ 105.1	$ 88.0

The weighted average discount rate and rate of increase in compensation levels used in determining the actuarial present value of the projected benefit obligations were 8¾% and 5½% in 1991, 10% and 5¾% in 1990 and 9½% and 6% in 1989. The expected long-term rate of return on plan assets used in determining net periodic pension cost was 9½% in 1991, 1990 and 1989.

The plans' funded status was as follows:

	1991		1990	
millions	Assets exceed accumulated benefits	Accumulated benefits exceed assets	Assets exceed accumulated benefits	Accumulated benefits exceed assets
Actuarial present value of benefit obligations				
Vested benefit obligation	$3,004	$ 725	$2,951	$ 278
Accumulated benefit obligation	$3,252	$ 922	$3,344	$ 293
Projected benefit obligation (PBO)	$4,037	$1,094	$4,113	$ 405
Plan assets at fair value, primarily publicly traded stocks and bonds	4,870	841	4,767	234
PBO less than (in excess of) plan assets	833	(253)	654	(171)
Unrecognized net (gain) loss	(123)	186	221	20
Unrecognized prior service cost	120	(34)	68	2
Unrecognized transitional (asset) obligation	(271)	(77)	(455)	28
Adjustment required to recognize minimum liability	—	(18)	·	(24)
Prepaid (accrued) pension cost in the balance sheet at Dec. 31	$ 559	$ (196)	$ 488	$(145)

In 1991, the Company recognized a pension curtailment gain of $16.1 million arising from the 1990 Merchandise Group restructuring.

Retiree insurance benefits

Sears, Roebuck and Co. and its subsidiaries provide certain health care and life insurance benefits for retired employees. Generally, qualified employees may become eligible for these benefits if they retire in accordance with the Company's established retirement policy and are continuously insured under the Company's group plans or other approved plans for 10 or more years prior to retirement. The Company has the right to modify or terminate these plans. Health care benefits are self-insured by the Company. The Company recognizes the costs of providing health care benefits by expensing the claim and administrative costs incurred (net of member contributions) during the year. Life insurance benefits are funded by insurance contracts for which premiums are based on the benefits paid during the year. The Company recognizes the costs of providing life insurance benefits by expensing the insurance premiums.

In December 1990, the Financial Accounting Standards Board issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". The statement, which must be adopted by Jan. 1, 1993, will require the Company to accrue retiree health and life insurance benefits over the period in which employees become eligible for such benefits. Adoption of the statement will have no impact on cash flows.

The Company has the option of recognizing the transition obligation for the change in accounting immediately upon adoption or over a period of 20 years. If the Company recognizes the transition obligation as a one-time charge, net income and shareholders' equity would be reduced by an estimated $1.75 to $2.50 billion, and on an ongoing basis net income would be decreased annually by an estimated $50 to $150 million. If the Company elects to amortize the transition obligation, net income would be further decreased by the amortization of the transition obligation over 20 years. The financial statement impact of adopting SFAS No. 106 can fluctuate significantly depending on a number of factors, including: how the transition obligation is recognized; timing of adoption; potential plan changes; determination of the health care cost trend rate; and determination of a discount rate.

SEARS, ROEBUCK AND CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

7. Investment securities

The market values of investments carried at cost were as follows:

millions				December 31, 1991
		Gross Unrealized		
	Cost	Gains	Losses	Market Value
U.S. Government and agency obligations	$ 456.6	$ 43.8	$ (.1)	$ 500.3
State and municipal	15,112.8	1,236.9	(23.1)	16,326.6
Corporate bonds and obligations	9,494.1	714.4	(127.3)	10,081.2
Foreign government	291.7	24.1	(.1)	315.7
Mortgage-backed securities	4,586.4	377.7	(4.1)	4,960.0
	$29,941.6	$2,396.9	$(154.7)	$32,183.8

millions				December 31, 1990
		Gross Unrealized		
	Cost	Gains	Losses	Market Value
U.S. Government and agency obligations	$ 223.2	$ 9.7	$ (2.3)	$ 230.6
State and municipal	13,606.3	835.4	(83.8)	14,357.9
Corporate bonds and obligations	7,819.5	86.9	(469.9)	7,436.5
Foreign government	372.8	11.4	(11.6)	372.6
Mortgage-backed securities	4,270.5	93.0	(11.2)	4,352.3
	$26,292.3	$1,036.4	$(578.8)	$26,749.9

Investment securities carried at cost had scheduled maturities at Dec. 31, 1991 as follows:

millions	Cost	Market Value
Within 1 year	$ 933.0	$ 1,005.6
After 1 year through 5 years	7,224.5	7,824.1
After 5 years through 10 years	10,764.2	11,478.6
After 10 years	6,433.5	6,915.5
	25,355.2	27,223.8
Mortgage-backed securities	4,586.4	4,960.0
	$29,941.6	$32,183.8

The Company realized proceeds of $2.4 billion with resulting gains and losses of $73.2 and $39.3 million, respectively, from the sale prior to the maturity of investment securities carried at cost during the year ended Dec. 31, 1991.

8. Short-term borrowings consisted of:

millions	December 31	
	1991	1990
Commercial paper	$6,146.3	$10,235.2
Bank loans	2,947.9	3,948.7
Agreements with bank trust departments	510.1	571.9
Other loans (principally foreign)	183.9	558.2
Total short-term borrowings	$9,788.2	$15,314.0

At Dec. 31, 1991, the Company had syndicated credit agreements of $5.9 billion through SRAC and Discover Credit Corp. (DCC). The Company also had entered into uniform credit agreements with individual banks totaling $3.6 billion. These syndicated and uniform credit agreements provide for loans at prevailing interest rates and mature at various dates through October 1994. Additionally, the Company had $5.5 billion of unused lines of bank credit. These credit lines are renewable annually at various dates and provide for loans of varying maturities at prevailing interest rates. The Company pays commitment fees or maintains informal compensating balances in connection with these credit agreements and lines of credit.

At Dec. 31, 1991, the syndicated credit agreements not maturing within one year supported the long-term classification of $4.9 billion of commercial paper. This debt can be refinanced on a long-term basis using these agreements. The Company has reclassified an additional $1.2 billion of commercial paper as long-term as a result of the sale of Series A Preferred Shares in early 1992. See note 14 to the Consolidated Financial Statements.

The Company has utilized interest rate swaps, interest rate caps and other liability management techniques to reduce interest rate risk. The Company had interest rate swap agreements which established fixed rates on $4.8 and $3.1 billion of short-term variable rate debt at Dec. 31, 1991 and 1990, with weighted average interest rates of 8.82% and 9.53%, respectively. The average maturity of agreements in effect on Dec. 31, 1991 was approximately six years. Interest rate caps and other liability management products are used to lock in a maximum rate if rates rise, but enable the Company to otherwise pay lower market rates. The Company established a maximum rate on $2.2 and $1.6 billion of debt at Dec. 31, 1991 and 1990, with weighted average interest rates of 6.10% and 8.60%, respectively. The average maturity of agreements in effect on Dec. 31, 1991 was approximately three years.

Notes to Consolidated Financial Statements continued

9. Long-term debt was as follows:

millions Issue	December 31 1991	 1990
Sears, Roebuck and Co.		
6⅞% Yen Bonds, due 1991	$ —	$ 58.4
13¼% Notes, due 1992	231.0	231.0
9.35% Notes, due 1993	400.0	400.0
7% Notes, due 1994	350.0	—
12% Notes, due 1994	230.9	230.9
8.55% Notes, due 1996	200.0	200.0
9% Notes, due 1996	200.0	200.0
9¼% Notes, due 1997	300.0	300.0
8.45% Notes, due 1998	250.0	—
9¼% Notes, due 1998	500.0	—
Extendable Notes, 7½% to April 15, 1992, due 1999	49.2	49.2
9½% Notes, due 1999	200.0	200.0
6% Debentures, $300 million face value, due 2000, effective rate 14.8%	176.5	169.2
7% Debentures, $300 million face value, due 2001, effective rate 14.6%	182.7	177.6
9.375% Debentures, due 2011	300.0	-
Floating Commercial Paper Rate—Put Premium Option Notes, 4.95% at Dec. 31, 1991, due 2021	200.0	--
4.50% to 10.35% Medium-Term Notes, due 1991 to 2021	3,324.2	1,847.1
Capitalized lease obligations	63.0	71.2
Sears Roebuck Acceptance Corp.		
Commercial paper backed by revolving credit, 5.2% and 8.2% at Dec. 31, 1991 and 1990	4,925.0	3,450.0
Commercial paper expected to be refinanced from sale of Series A Preferred Shares	1,200.0	—
4.56% Variable Interest Notes (7.62% at Dec. 31, 1990), due 1992	204.0	271.0
Other notes	—	4.0
Discover Credit Corp.		
Commercial paper backed by revolving credit, 8.2% at Dec. 31, 1990	—	250.0
7.57% to 9.10% Medium-Term Notes, due 1991 to 2001	1,309.8	135.1
Sears Overseas Finance N.V. (guaranteed by Sears, Roebuck and Co.)		
11⅝% Notes, due 1991	—	150.0
5⅜% Swiss Franc Notes, due 1991	—	100.1
Zero Coupon Notes, $400 million face value, due 1992, effective rate 15.0%	393.2	341.9
11⅝% Notes, due 1993	150.0	150.0
Zero Coupon Bonds, $400 million face value, due 1994, effective rate 12.8%	299.9	265.8
Zero Coupon Bonds, $500 million face value, due 1998, effective rate 12.0%	239.2	213.6
Homart Development Co.		
7¼% to 10% Notes, due 1991 to 2002	62.0	63.0
8⅜% to 12¾% Mortgage Notes, due 1993 to 2000	810.2	689.2
Notes payable to banks	315.0	315.0
Sears Canada Inc.		
9¼% to 11¾% Debentures, due 1994 to 2000	415.2	416.2
Notes, mortgages, bonds and capitalized leases	321.0	333.4
Sears Acceptance Co. Ltd.		
9⅛% to 15⅛% Secured Debentures, due 1991 to 2000	299.0	346.4
Other subsidiaries		
Participating mortgages, $850 million face value, due 2005, effective rate 8.7%, collateralized by Sears Tower and related properties	833.9	833.3
Notes payable, mortgages and capitalized leases	235.2	173.8
Total long-term debt	$19,170.1	$12,636.4

The mortgages of Sears Tower and related properties include purchase options exercisable in 2005 at a price reflective of market values at that time. The Company will share in any appreciation of the properties.

As of Dec. 31, 1991, long-term debt maturities for the next five years, excluding commercial paper classified as long-term debt, were as follows:

Year Ended December 31	millions
1992	$2,148.1
1993	1,871.1
1994	1,822.9
1995	837.4
1996	1,425.0

In 1990, the Company retired $69.2 million of long-term debt before its scheduled maturity.

10. Leases

The Company leases certain stores, office facilities, computers and automotive equipment.

Operating and capital lease obligations are based upon contractual minimum rates and, for certain stores, amounts in excess of these minimum rates are payable based upon specified percentages of sales. Certain leases include renewal or purchase options. Operating lease rentals were $959.3, $911.9, and $807.4 million, including contingent rentals of $32.0, $38.5 and $40.6 million, for the years ended Dec. 31, 1991, 1990 and 1989.

Minimum fixed lease obligations, excluding taxes, insurance and other expenses payable directly by the Company, for leases in effect as of Dec. 31, 1991 were:

millions Year Ended December 31	Capital leases	Operating leases
1992	$ 40.6	$ 701.7
1993	37.3	588.7
1994	35.4	461.0
1995	34.5	375.4
1996	33.1	255.0
After 1996	500.6	1,383.6
Minimum payments	681.5	$3,765.4
Executory costs (principally taxes)	46.0	
Implicit interest	404.5	
Present value of minimum lease payments, principally long-term	$231.0	

11. Financial instruments with off-balance-sheet risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers, to reduce its exposure to market and interest rate risk and in connection with the proprietary trading activities of its broker and dealer operation. Unless noted otherwise, the Company does not require collateral or other security to support financial instruments with credit risk. The Company had the following financial instruments with off-balance-sheet credit risk at Dec. 31, 1991:

millions	Contract or Notional Amount
Financial instruments whose contract amounts represent credit risk	
Commitments to extend credit under revolving agreements	$149,794.0
Commitments to extend mortgage loans	2,498.3
Mortgage loans sold with recourse	3,531.7
Financial guarantees written	163.9
Financial instruments whose notional or contract amounts exceed the amount of credit risk	
Securitized receivables with recourse	14,824.6
Interest rate swap agreements associated with	
Short-term debt	4,760.8
Deposits and other	1,308.4
Options written	349.6
Financial futures contracts	292.9
Forward foreign currency purchase contracts	5,701.3
Forward foreign currency sales contracts	5,728.3
Forward mortgage loan sales contracts	607.7

Commitments to extend credit under revolving agreements relate primarily to the aggregate unused credit limits for SearsCharge and Discover Card accounts. These commitments generally have fixed expiration dates or other termination clauses. It is unlikely the total commitment amount will represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. Commitments to extend mortgage loans represent future cash requirements and have fixed expiration dates. Risk from commitments arises from the possible movements in interest rates.

The mortgage loans sold with recourse, financial guarantees written and securitized receivables with recourse represent conditional commitments of the Company to guarantee performance to a third party. The mortgage loans sold with recourse and a portion of the securitized receivables with recourse are collateralized by real estate or personal property. At Dec. 31, 1991, receivables that were securitized and sold as pass-through certificates consisted of $8.3 billion of retail customer receivables, $5.7 billion of Discover Card receivables and $829.4 million of consumer finance and other notes. The Company's credit risk exposure on these securitized balances was contractually limited to $1.1 billion.

Interest rate swap transactions generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying notional amounts. The differential to be paid or received is accrued as interest rates change and is recognized over the life of the agreements.

Options written, financial futures contracts and forward mortgage loan sales contracts are used by the Company to hedge its market or interest rate risk. Forward foreign currency purchase and sales contracts are used by the Company in its broker and dealer trading activities. Risks from options written and futures and forward contracts arise from the possible inability of counterparties to meet the terms of their contracts and from movements in currency values and interest rates. Realized and unrealized gains on options written and futures and forward contracts designated and effective as hedges of market or interest rate exposure are deferred and recognized in income over the lives of the hedged assets or liabilities.

As a securities broker and dealer, the Company is exposed to risk in the event that clients are unable to fulfill their financing and settlement obligations. The Company attempts to minimize this risk by establishing and monitoring credit limits and margin requirements.

12. Significant group concentrations of credit risk

The Company invests in state and municipal bond holdings and grants credit to customers throughout the nation. As of Dec. 31, 1991, the five states in which the Company had the largest amount of credit card receivables and loans, including those sold with recourse, and state and municipal bond holdings were as follows:

millions	
California	$9,187.9
Texas	4,579.6
Florida	3,957.6
Illinois	3,238.8
New York	3,035.3

In addition, the Company had $923.5 million of high-yield securities at Dec. 31, 1991, carried at amortized cost, with a market value of $850.9 million.

The Company conducts various securities trading and brokerage activities serving a diverse group of investors. The Company's exposure to credit risk, in fulfilling its contractual obligations pursuant to securities and commodities transactions, can be directly impacted by volatile trading markets which may impair the clients' ability to satisfy their obligations to the Company.

In connection with the Company's broker and dealer activities, the Company enters into collateralized reverse repurchase agreements. The Company limits its credit exposure associated with these agreements by monitoring client credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Company when deemed necessary.

13. Pending legal proceedings

Various legal actions and governmental proceedings are pending against the Company, many involving ordinary routine litigation incidental to the businesses. Other matters contain allegations which are nonroutine and involve compensatory, punitive or antitrust treble damage claims in very large amounts, as well as other types of relief. See note 4 to the Allstate Insurance Group summarized financial statements on page 39 for a discussion of specific pending legal proceedings. The consequences of these matters are not presently determinable but, in the opinion of management, the ultimate liability in excess of reserves currently recorded will not have a material effect on the liquidity or capital resources of the Company.

14. Shareholders' equity

Dividend payments are restricted as follows:

Certain indentures relating to the long-term debt of Sears, Roebuck and Co., which represent the most restrictive contractual limitation on the payment of dividends, provide that the Company cannot take specified actions, including the declaration of cash dividends, which would cause its consolidated unencumbered assets, as defined, to fall below 150% of its consolidated liabilities, as defined. At Dec. 31, 1991, $9.8 billion in retained income could be paid in dividends to shareholders under the most restrictive indentures.

The capital of certain foreign operations, Allstate Life Insurance Company and Sears Savings Bank at Dec. 31, 1991 included approximately $753 million which, if distributed, would be subject to income taxes of approximately $291 million. It is not contemplated that distributions will be made in an amount which would require such tax payments.

The Illinois Insurance Holding Company Systems Act permits Allstate Insurance Company to pay, without regulatory approval, dividends to Sears, Roebuck and Co. during any 12-month period in an amount up to the greater of 10% of surplus (as regards policyholders) or its net income (as defined) as of the preceding Dec. 31. Approximately $542 million of Allstate's retained income at Dec. 31, 1991 had no restriction relating to distribution during 1992 which would require prior approval.

Dean Witter Reynolds Inc. is subject to the Securities and Exchange Commission's Uniform Net Capital Rule and the New York Stock Exchange's Growth and Business Capital Rule. Under these rules the declaration of dividends is restricted. At Dec. 31, 1991, approximately $526 million of Dean Witter Group's retained income was available for the declaration of dividends to Sears, Roebuck and Co.

As of Dec. 31, 1991, subsidiary companies could remit to Sears, Roebuck and Co. in the form of dividends approximately $4.0 billion, after payment of all related taxes, without prior approval of regulatory bodies or violation of contractual restrictions.

Preferred Shares

In November 1991, Sears, Roebuck and Co. issued 3.25 million 8.88% Preferred Shares, First Series (8.88% Preferred Shares), in the form of 13 million depositary shares, each representing one-fourth of an 8.88% Preferred Share, at an offering price of $25 per depositary share. All shares were outstanding as of Dec. 31, 1991. Dividends of $3.9 million were accrued during 1991. The 8.88% Preferred Shares have cumulative dividends and a liquidation preference of $100 per share ($25 per depositary share), plus accrued and unpaid dividends. On or after Nov. 9, 1996, Sears may, at its option, redeem the 8.88% Preferred Shares, in whole or in part, at any time at a redemption price of $100 per share, plus accrued and unpaid dividends to the redemption date.

In early 1992, Sears, Roebuck and Co. sold 7,187,500 Series A Mandatorily Exchangeable Preferred Shares (Series A Preferred Shares) in the form of 28.75 million depositary shares, each representing one-fourth of a Series A Preferred Share, at a price of $43 per depositary share. The depositary shares have an annual, cumulative dividend rate of $3.75 per share. Each depositary share is required to be exchanged for one common share of the Company on April 1, 1995 (subject to adjustment in certain events). At any time prior to April 1, 1995, the Company may elect, at its option, to exchange the outstanding depositary shares for common shares, in whole or in part at an initial price of $64.25 per share declining ratably to $59.28 per share on Feb. 1, 1995, and equal to $59.00 thereafter, plus accrued and unpaid dividends. The Series A Preferred Shares have voting rights (equivalent to one-fourth of a vote for each depositary share) and a liquidation preference of $172 per share ($43 per depositary share).

In the event that dividends payable on either series of preferred stock are in arrears for six quarterly periods, holders of such stock together shall have the right to elect two additional directors of the Company until all cumulative dividends have been paid or set apart for payment. Additionally, dividends cannot be paid on the Company's common shares if dividends on either series of preferred shares are in arrears.

Stock option plans

Options to purchase common stock of the Company have been granted to employees under various plans at prices equal to the fair market value of the stock on the dates the options were granted. Certain options include stock appreciation rights (SARs) which, upon surrender of the option, permit the optionee to receive the excess of the current market price over the option price in cash. In addition, the Company may pay to the optionee in connection with certain options or SARs an amount generally equal to the maximum statutory corporate federal income tax rate then in effect (not to exceed 46%) times the difference between the market price and the option price. Options and SARs are generally exercisable in not more than four equal, annual cumulative installments beginning one year after the date of grant, and generally expire in 10 or 12 years.

Changes in stock options were as follows:

thousands of shares	Year Ended December 31		
	1991	1990	1989
Beginning balance	9,874.4	10,212.5	10,511.5
Granted	4,605.5 (a)	839.1	1,482.5
Exercised	(550.9)(b)	(498.8)	(1,207.3)
Canceled or expired	(624.4)(c)	(678.4)	(574.2)
Ending balance	13,304.6 (d)	9,874.4	10,212.5
Reserved for future grant at year-end	3,585.8 (e)	8,104.2	1,341.4
Exercisable	7,716.3	7,024.2	6,404.8

(a) Consists of 755.7 thousand shares granted under the 1982 Plan at a price of $30.44, 371.7 thousand shares granted under the 1986 Plan at prices ranging from $25.94 to $42.88, and 3,478.1 thousand shares granted under the 1990 Plan at prices ranging from $30.44 to $42.88.

(b) Consists of 393.2 thousand shares under the 1972 Plan at a price from $15.94 to $18.38, 16.2 thousand shares under the 1978 Plan at a price of $32.88, 42.7 thousand shares under the 1982 Plan at a price from $29.38 to $40.19, 80.6 thousand shares under the 1986 Plan at a price from $34.19 to $34.75, 14.5 thousand SARs exercised under the 1982 Plan with an option price of $32.88 and 3.7 thousand SARs exercised under the 1986 Plan at an option price of $34.75.

(c) The options that expired or were canceled in 1991 were previously granted at prices ranging from $18.38 to $51.25.

(d) Consists of 350.3, 4,128.6, 5,460.0 and 3,365.7 thousand shares under the 1978, 1982, 1986 and 1990 Plans, respectively, at weighted average purchase prices per share of $39.71, $36.97, $34.47 and $30.58 for the respective plans. SARs were attached to 365.1 and 803.9 thousand shares under the 1982 and 1986 Plans, respectively.

(e) Shares reserved for future grant totaled 243.7, 180.5 and 3,161.6 thousand shares for the 1982, 1986 and 1990 Plans.

SEARS, ROEBUCK AND CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

15. Quarterly results (unaudited)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
millions, except per common share data	1991	1990	1991	1990	1991	1990	1991	1990
Revenues	$12,883.8	$12,605.8	$14,090.0	$13,851.7	$14,300.2	$13,957.0	$15,968.4	$15,557.2
Operating income	112.0	21.7	362.1	219.5	201.8	139.6	655.1	148.6
Income from continuing operations, prior basis	202.7	95.8	239.3	237.9	150.3	179.2	552.6	378.8
Retroactive restatement for SFAS No. 109	34.5	—	60.1	—	78.9	—	(39.5)	-
Income from continuing operations	237.2	95.8	299.4	237.9	229.2	179.2	513.1	378.8
Net income, prior basis	202.7	106.3	239.3	237.9	150.3	179.2	552.6	378.8
Retroactive restatement for SFAS No. 109	34.5	—	60.1	—	78.9	—	(39.5)	—
Net income	237.2	106.3	299.4	237.9	229.2	179.2	513.1	378.8
Net income per common share, prior basis	$ .59	$ .31	$ .70	$ .69	$ .43	$ .53	$ 1.60	$ 1.10
Retroactive restatement for SFAS No. 109	.10	—	.17	—	.24	—	(.12)	- -
Net income per common share	$ .69	$ .31	$ .87	$ .69	$ .67	$ .53	$ 1.48	$ 1.10

Income from continuing operations, net income and related per common share amounts for 1991 have been restated to reflect adoption of SFAS No. 109 "Accounting for Income Taxes" effective Jan. 1, 1991.

The fourth quarter pretax LIFO adjustment was a charge of $6.7 million in 1991 and a credit of $39.7 million in 1990, compared with charges of $18.8 and $34.0 million for the first nine months of the respective years. Fourth quarter 1990 results include a pretax restructuring charge of $264.4 million.

Common Stock Market Information and Dividend Highlights (unaudited)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Year	
dollars	1991	1990	1991	1990	1991	1990	1991	1990	1991	1990
Stock price range										
High	36⅞	41⅞	40⅞	39⅜	43½	36¾	39⅛	27⅜	43½	41⅞
Low	24⅜	36⅞	33½	34¾	35⅜	24⅛	33	22	24⅜	22
Close	35	39¼	37⅞	36½	38½	25⅜	37⅞	25⅝	37⅞	25⅝
Dividends declared	.50	.50	.50	.50	.50	.50	.50	.50	2.00	2.00

Stock price ranges are for transactions reported in a summary of composite transactions for stocks listed on the New York Stock Exchange (trading symbol—S), which is the principal market for the Company's common stock.

The number of registered common shareholders at Feb. 28, 1992 was 340,311.

In addition to the New York Stock Exchange, the Company's common stock is listed on the following exchanges: Midwest, Chicago; Pacific, San Francisco; London, England; Basel, Geneva, Lausanne and Zurich, Switzerland; Amsterdam, The Netherlands; Tokyo, Japan; Paris, France, and Frankfurt, Germany.

SEARS MERCHANDISE GROUP

Summarized Statements of Income

millions	Year Ended December 31		
	1991	1990	1989
Revenues			
Merchandise sales and services	**$28,344.8**	$28,958.8	$28,824.6
Credit revenues	**3,088.1**	3,026.9	2,774.6
Total revenues	**31,432.9**	31,985.7	31,599.2
Costs and expenses			
Cost of sales, buying and occupancy	**19,976.6**	20,181.4	19,854.7
Selling and administrative	**8,819.8**	9,281.2	8,887.2
Provision for uncollectible accounts	**848.7**	621.9	401.0
Restructuring	**—**	264.4	-
Interest	**1,022.4**	1,238.5	1,324.4
Total costs and expenses	**30,667.5**	31,587.4	30,467.3
Operating income	**765.4**	398.3	1,131.9
Other income	**45.8**	46.8	4.4
Income before income taxes, minority interest and equity income	**811.2**	445.1	1,136.3
Income taxes	**337.8**	187.8	459.4
	473.4	257.3	676.9
Minority interest and equity in net income of unconsolidated companies	**12.9**	.1	(30.0)
Group income	**$ 486.3**	$ 257.4	$ 646.9

See notes to Consolidated and Sears Merchandise Group summarized financial statements.

Analysis of Operations

Sears Merchandise Group revenues in 1991 decreased $552.8 million or 1.7%, reflecting the impact of the domestic and Canadian recessionary economies and the increasingly competitive retail environment. Domestic merchandising revenues decreased $335.9 million, 1.3% lower than 1990. Lower sales in home fashions and home appliances, areas particularly hard hit by the continuing recession, were partially offset by sales increases in automotive, women's apparel, home computers and office equipment. Revenues from domestic credit operations increased 2.4%. The increase was principally due to higher gross receivables, partially offset by the sale of credit accounts through the use of asset-backed securities. International revenues were 6.7% below last year. In 1990, Merchandise Group revenues improved $386.5 million or 1.2%, over 1989.

Merchandise Group net income increased $228.9 million in 1991. Excluding the restructuring charges taken in 1990, the improvement was $73.7 million. Merchandising net income increased $196.9 million, or $53.5 million excluding the 1990 restructuring charges. Lower selling and administrative expenses were partially offset by declines in sales and gross margins. Credit net income increased $63.4 million, primarily due to lower interest rates partially offset by an increase in the provision for uncollectible accounts. International net income decreased $43.2 million excluding the 1990 restructuring charge. Results were negatively impacted by the adverse Canadian economy.

In 1990, Merchandise Group income decreased $389.5 million. Credit reported an increase in net income, while both Merchandising and International reported decreases. Merchandising results reflected lower gross margins, higher operating expenses and a fourth quarter after-tax restructuring charge of $143.4 million. In Credit, the improvement resulted from higher revenues and lower interest expense, which were partially offset by an increase in the provision for uncollectible accounts. International results were adversely impacted by the declining Canadian economy and an after-tax charge of $11.8 million for Canadian restructuring.

Merchandising operations in the United States accounted for 78.8% of Group revenues in 1991.

$ millions	1991	1990	1989
Merchandise sales and services	$24,757.3	25,093.2	25,001.9
Cost of sales, buying and occupancy expenses	$17,344.2	17,355.8	17,132.0
Ratio to sales and services	70.1%	69.2	68.5
Selling and administrative expenses	$ 7,219.3	7,612.0	7,315.7
Ratio to sales and services	29.2%	30.3	29.3
Restructuring expenses (net of profit sharing benefit)	$ —	231.2	—
Ratio to sales and services	—	0.9 %	—
Operating income before restructuring	$ 120.1	49.7	479.5
Ratio to sales and services	0.5%	0.2	1.9
Operating income (loss)	$ 120.1	(181.5)	479.5
Merchandising income before restructuring	$ 90.4	36.9	292.2
Ratio to sales and services	0.4%	0.1	1.2
Merchandising income (loss)	$ 90.4	(106.5)	292.2
Net sales per square foot (dollars)	$ 332	341	347
Merchandise inventories—LIFO basis	$ 3,784.7	3,449.1	3,617.9
Merchandise inventories—FIFO basis	$ 4,541.5	4,180.4	4,354.9

Merchandising sales and service revenues decreased $335.9 million or 1.3% in 1991, compared to an increase of $91.3 million or 0.4% in 1990. An analysis of net sales by category follows:

	1991	1990	1989
Retail sales and services	79.5%	78.8%	78.9%
Direct marketing (includes catalog)	14.2	15.3	16.0
Specialty	6.3	5.9	5.1
Total net sales	100%	100%	100%

SEARS MERCHANDISE GROUP

ANALYSIS OF OPERATIONS continued

Retail revenues decreased .8% in 1991, compared with an increase of .3% in 1990. Sales decreases were reported in home appliances and home fashions, areas directly affected by the recessionary economy. Higher sales were reported in automotive, women's apparel, home computers and office equipment. Sales gains in automotive reflect the completion of the national rollout of the Tire and Auto Center power format which emphasizes improved product presentation and a broader assortment of national brands. Improved sales in women's apparel and home computers and office equipment were the result of the ongoing rollout of the Women's Store power format and Office Centers during 1991.

In 1992, Retail revenues will be enhanced by an intensely-focused emphasis on merchandising and quality service, including an accelerated rollout of power formats and special sales events to provide increased value to the customer.

Direct Marketing revenues decreased 8.4% in 1991, compared with a decrease of 4.0% in 1990. Direct Marketing revenues are planned to be lower in 1992 as well, as it pursues a more focused strategy to improve profitability.

Cost of sales, buying and occupancy expenses as a percentage to sales increased .9% and .7% in 1991 and 1990, respectively. The current year results reflected the impact of higher selling price reductions necessitated by heightened competition and a recessionary domestic economy, higher inventory shrinkage, and a $31.2 million increase in the LIFO charge, partially offset by lower transportation costs. The increase in these costs and expenses in 1990 was primarily the result of higher selling price reductions.

Selling and administrative expenses decreased $392.7 million in 1991, to 29.2% of revenues from 30.3% in 1990. Reductions in nonselling payroll and benefits, distribution costs, and advertising were the primary contributors to this improvement. Increased insurance costs were substantially offset by a change in maintenance agreement accounting, adopted Jan. 1, 1990, which resulted in decreases in both revenues and selling and administrative expenses in 1991.

Although cost reduction progress was made in 1991, management is committed to a continuing cost reduction program. Management recently announced a reorganization of the field management reporting structure, resulting in the elimination of 600 jobs and the closing and consolidation of several offices; the elimination of approximately 7,000 sales supporting positions in the retail stores as a result of new point-of-sale technology; and changes to commission sales associates compensation programs; all of which will contribute to reduced costs in 1992. Additionally, a benchmarking study is underway to optimize the organizational structure of the headquarters and various field staff offices, which will result in further cost reductions.

In 1990, the ratio of selling and administrative expenses to revenues increased 1.0% due to the combined effects of flat revenues and higher sales promotion and insurance costs, partially offset by reductions in retail sales support and administrative payroll.

Restructuring charges in 1990 of $231.2 million reflected the anticipated costs of severance programs in the retail sales support area and in headquarters, logistics, catalog and service operations. The restructuring charges were the result of a cost reduction program primarily designed to streamline support operations.

In 1991, Merchandising net income increased $196.9 million, or $53.5 million when compared with 1990 net income before restructuring. Results were positively impacted by reductions in operating costs partially offset by lower revenues and gross margins. A change in maintenance agreement accounting increased 1991 after-tax earnings by $42.0 million. This change had no material impact on 1990 earnings and no material impact is expected on 1992 operating results or in future years. In 1990, Merchandising income decreased by $398.7 million, the result of flat revenues, higher costs and expenses and the restructuring charge.

Credit operations in the United States contributed the following:

$ millions	1991	1990	1989
Finance charge and other revenues	$ 2,735.2	2,671.3	2,462.1
Interest expense	$ 755.4	964.3	1,050.3
Provision for uncollectible accounts	$ 781.3	570.0	368.4
Credit income	$ 393.5	330.1	288.1
Credit sales as a percentage of gross sales	57.3%	59.2	58.7
Discover Card sales as a percentage of gross sales	6.7%	6.3	5.9
Gross customer receivables at Dec. 31	$20,245.4	19,541.8	17,545.6
Balances sold at Dec. 31	$ 7,679.1	6,040.4	3,526.3
Owned customer receivables at Dec. 31	$12,566.3	13,501.4	14,019.3
Average owned receivables	$12,271.7	13,165.5	13,188.4
Average account balance (dollars)	$ 736	698	637
Net charge-offs to average gross customer receivables	3.09%	2.42	1.94
Gross customer receivables delinquent three months or more	2.93%	2.29	1.69

Credit revenues rose 2.4% in 1991 compared with an 8.5% increase in 1990. The improvement in both years was primarily due to higher gross customer receivables, partially offset by the sale of credit accounts through the use of asset-backed securities.

The provision for uncollectible accounts rose 37.1% in 1991 following an increase of 54.7% in 1990. The results for both years were adversely affected by a continuing increase in delinquent accounts and bankruptcies, along with higher gross customer receivables. Lower average interest rates and reduced borrowings due to a decrease in owned receivables were the key factors causing the 21.7% decrease in interest expense in 1991. Lower average interest rates resulted in an 8.2% decrease in interest expense in 1990.

Higher credit revenues and lower interest expense more than offset the rise in the provision for uncollectible accounts and resulted in increases in Credit income of 19.2% in 1991 and 14.6% in 1990.

Summarized Statements of Financial Position

millions	December 31 1991	1990
Assets		
Current assets		
Cash	**$ 104.1**	$ 268.3
Retail customer receivables	**14,037.8**	15,646.9
Less: Allowance for uncollectible accounts and unearned finance charges	**500.4**	416.5
	13,537.4	15,230.4
Other receivables	**302.4**	301.8
Inventories	**4,459.4**	4,074.0
Prepaid expenses and deferred charges	**568.7**	518.4
Deferred taxes	**853.3**	418.4
Total current assets	**19,825.3**	20,811.3
Property and equipment		
Land	**324.0**	281.3
Buildings and improvements	**3,899.2**	3,658.3
Furniture, fixtures and equipment	**4,082.5**	3,843.3
Capitalized leases	**312.9**	343.9
	8,618.6	8,126.8
Less accumulated depreciation	**4,254.4**	3,967.8
Total property and equipment, net	**4,364.2**	4,159.0
Investments in and advances to unconsolidated companies	**38.5**	29.1
Other assets	**601.1**	539.6
Total assets	**$24,829.1**	$25,539.0
Liabilities		
Current liabilities		
Short-term borrowings	**$ 2,501.6**	$ 5,324.4
Accounts payable and other liabilities	**4,263.7**	4,007.7
Unearned revenues	**1,147.6**	1,133.8
Other taxes	**411.7**	372.6
Total current liabilities	**8,324.6**	10,838.5
Long-term debt and capitalized lease obligations	**8,993.9**	7,746.8
Deferred income taxes	**658.5**	246.9
Minority interest and other	**332.6**	317.0
Total liabilities	**18,309.6**	19,149.2
Capital	**6,519.5**	6,389.8
Total liabilities and capital	**$24,829.1**	$25,539.0

See notes to Consolidated and Sears Merchandise Group summarized financial statements.

Analysis of Operations continued

International operations are conducted in Canada and Mexico. Revenues of International operations translated to U.S. dollars totaled $3.94 billion in 1991, compared with $4.22 billion in 1990. In Canadian dollars, Sears Canada revenues decreased 10.5% in 1991, compared with an increase of .1% in 1990. Current year Canadian sales were adversely affected by a recessionary economy and a value-added tax, enacted Jan. 1, 1991. The reduction of the selling price of merchandise affected by the value-added tax accounts for approximately one-third of the 1991 revenue decrease, resulting in a comparable decrease of 7.4%. Due to favorable foreign currency translation adjustments, Sears Canada revenues in U.S. dollars decreased 8.8% in 1991, compared with an increase of 1.3% in 1990. Revenues of Sears Mexico in U.S. dollars were $368.7 million in 1991, compared to $305.6 million in 1990, an increase of 20.6%.

Gross margins and selling and administrative expenses in 1991 were relatively flat although both Sears Canada and Sears Mexico experienced a significant increase in store preopening costs. Sears Canada opened 10 new stores including seven acquired from Hudson Bay. In Mexico five new stores were opened during the year.

International net income was $2.4 million in 1991, compared with $33.8 million in 1990. The decrease in net income was primarily the result of lower Canadian revenues. Net income for 1990 was $32.8 million lower than in 1989 reflecting Canadian pretax restructuring charges of $33.2 million for severance benefits, lower gross margins and higher operating costs.

SEARS MERCHANDISE GROUP

SUMMARIZED STATEMENTS OF CASH FLOWS

millions

		Year Ended December 31	
	1991	1990	1989
Cash flows from operating activities			
Group income	**$ 486.3**	$ 257.4	$ 646.9
Adjustments to reconcile group income to net cash provided by operating activities			
Depreciation, amortization and other noncash items	**484.3**	446.0	422.0
Gains on sale of property and investments	**(42.6)**	(15.3)	(28.8)
Provision for uncollectible accounts	**848.7**	621.9	401.0
Change in deferred taxes	**(20.4)**	(537.1)	(92.9)
Decrease (increase) in retail customer receivables	**846.8**	(284.7)	(1,467.2)
Decrease (increase) in merchandise inventories	**(386.4)**	278.1	(629.1)
Change in net other operating assets and liabilities	**222.4**	138.0	359.3
Net cash provided by (used in) operating activities	**2,439.1**	904.3	(388.8)
Cash flows from investing activities			
Net purchases of property and equipment	**(698.0)**	(789.7)	(519.6)
Net sales of investments	**48.5**	6.1	33.3
Net cash used in investing activities	**(649.5)**	(783.6)	(486.3)
Cash flows from financing activities			
Net increase (decrease) in long-term debt	**675.8**	584.3	(477.6)
Net increase (decrease) in short-term borrowings, primarily 90 days or less	**(2,271.8)**	(770.8)	1,226.6
Dividends paid to Corporate	**(199.3)**	(238.5)	(137.5)
Net capital transfers (to) from Corporate	**(159.1)**	234.8	213.5
Net cash provided by (used in) financing activities	**(1,954.4)**	(190.2)	825.0
Effect of exchange rate changes on cash	**.6**	(2.6)	(1.9)
Net decrease in cash	**$ (164.2)**	$ (72.1)	$ (52.0)
Cash at beginning of year	**$ 268.3**	$ 340.4	$ 392.4
Cash at end of year	**$ 104.1**	$ 268.3	$ 340.4

See notes to Consolidated and Sears Merchandise Group summarized financial statements.

32

ANALYSIS OF FINANCIAL CONDITION

Liquid assets consisting primarily of retail customer receivables and inventories comprised 76% of Merchandise Group's assets at Dec. 31, 1991. Gross customer receivables at Dec. 31, 1991 of $22.37 billion were geographically diversified throughout all 50 states, Canada and Mexico. An asset securitization program was undertaken in 1988 for domestic customer receivables under which $9.25 billion of credit account pass-through certificates have been issued. In December 1991, Sears Canada commenced an asset securitization program, under which $651.1 million of credit accounts were securitized.

Inventories are valued primarily using the last-in, first-out (LIFO) method. If inventories had been valued using the first-in, first-out (FIFO) method instead of LIFO, inventories would have been $756.8 million higher at Dec. 31, 1991.

Net cash generated from operating activities was $2.44 billion in 1991 compared with $904.3 million in 1990. The increase was primarily due to reductions in owned receivables and a smaller change in deferred taxes, partially offset by an increase in inventory levels. In 1990, the results reflected the impact of reduced inventory levels and owned receivables, partially offset by a reduction in deferred taxes.

Cash provided by current year operations was used primarily to purchase additional property and equipment and to reduce debt. During 1991, 25 department stores were opened, 13 in new markets and 12 relocations. In 1990, cash provided by operations was used primarily to purchase additional property and equipment and to reduce debt.

Domestic stores in operation at the end of the year are summarized below:

	1991	1990	1989
Department stores	868	863	847
Paint and Hardware stores	97	98	107
Catalog outlet stores	94	101	105
Western Auto	548	504	468
Eye Care Centers of America	102	94	104
Business Centers	53	65	61
Pinstripes Petites	40	40	39
Homelife stores	22	5	–
Total	1,824	1,770	1,731
Gross square feet (millions)	129.8	127.9	126.0

In addition to the units listed above, Direct Marketing operates 33 catalog sales offices, supervises 2,178 independent sales merchants and operates 10 telecatalog centers which offer nationwide toll-free service for incoming catalog orders. Furthermore, there are 1,102 other units in operation which perform miscellaneous sales and service functions.

Planned capital expenditures for 1992 for domestic operations are estimated at $515 million, excluding expenditures for the new Merchandise Group headquarters in Hoffman Estates. Approximately $53 million will be used for 14 new and relocated department stores. The balance of planned expenditures is for the upgrade of merchandise presentation, expansion of specialty stores, normal replacement of operating equipment, data processing equipment and distribution modernization. Planned capital expenditures will be financed primarily by cash from operating activities.

Notes to Summarized Financial Statements

Summary of significant accounting policies

Basis of presentation

The summarized financial statements of Sears Merchandise Group include domestic and international merchandising and customer credit operations. The International operations consist of Sears Canada and Sears Mexico, which are 62.6% and 100% owned, respectively.

Allowance for uncollectible accounts and recourse liability for sold accounts

The allowance for uncollectible accounts is established through a provision charged to expense. Accounts are charged against the allowance when management believes that collectibility is unlikely. The allowance is management's estimate of the future uncollectibility of existing accounts. Factors such as prior account loss experience, changes in the volume of the account portfolio and overall portfolio quality are considered in determining the adequacy of the allowance.

When receivables are sold with limited recourse (as described further in note 11 to the consolidated financial statements), the portion of the allowance for uncollectible accounts pertaining to such receivables is transferred to a recourse liability at the date of sale. The adequacy of the recourse liability is analyzed in the same manner as the allowance for uncollectible accounts. Charges to expense for the recourse liability are made through the provision for uncollectible accounts.

Retail customer receivables

Retail customer receivables shown in the Dec. 31, 1991 Statement of Financial Position include approximately $5.4 billion of domestic accounts and $453.8 million of foreign accounts which will not become due within one year. These receivables are expected to earn finance charge revenue at annual percentage rates ranging from 8.5% to 21.0% for the domestic accounts and 28.8% for the Canadian accounts.

Maintenance agreements

In December 1990, the Financial Accounting Standards Board issued Technical Bulletin 90-1, "Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts." The Technical Bulletin requires revenue and acquisition costs for such contracts to be deferred and amortized into income over the contract period on a systematic basis.

Inventories

Inventories of domestic operations are valued primarily at the lower of cost (using the last-in, first-out–LIFO method) or market by application of internally developed price indices to estimate the effects of inflation in inventories at their cost value.

The LIFO adjustment to cost of sales was a charge of $25.5 million in 1991, compared with credits of $5.7 and $6.6 million in 1990 and 1989, respectively. Partial liquidation of inventories valued under the LIFO method in all three years resulted in credits of $13.3, $28.1 and $25.0 million in 1991, 1990 and 1989, respectively. If the first-in, first-out (FIFO) method of inventory valuation had been used instead of the LIFO method, inventories would have been $756.8 and $731.3 million higher at Dec. 31, 1991 and 1990, respectively.

Inventories of International operations, Western Auto and Puerto Rico, which represent approximately 18.1% of Group inventories, are stated at the lower of cost (FIFO basis) or market.

Debt and related interest expense

Group debt includes borrowings by International subsidiaries in their respective countries. The debt of the domestic operations used to fund customer receivables is legally the responsibility of Sears, Roebuck and Co., SRAC or SOFNV, and amounted to $9.3 and $10.6 billion at Dec. 31, 1991 and 1990, respectively. Allocation of short-term and long-term debt is based on the proportionate composition of the pooled Corporate debt, and interest expense on the average debt outstanding is charged at a rate equal to the average cost of all funds borrowed by Sears, Roebuck and Co., SRAC and SOFNV.

ALLSTATE INSURANCE GROUP

Summarized Statements of Income

millions	Year Ended December 31		
	1991	1990	1989
Revenues			
Property-liability insurance premiums earned	**$15,147.0**	$14,280.5	$13,133.0
Life insurance premium income and contract charges	**1,196.9**	1,166.1	1,211.5
Investment income, less investment expense (note 1)	**3,001.4**	2,571.3	2,235.2
Realized capital gains	**4.9**	181.2	223.4
Total revenues	**19,350.2**	18,199.1	16,803.1
Costs and expenses			
Property-liability insurance claims and claims expense	**12,574.6**	12,198.8	10,873.6
Life insurance policy benefits	**2,121.6**	1,827.2	1,653.7
Policy acquisition costs (note 2)	**3,041.1**	2,870.3	2,678.8
Other operating costs and expenses	**1,074.2**	999.3	912.2
Total costs and expenses	**18,811.5**	17,895.6	16,118.3
Income before income taxes, equity income (loss) and minority interest	**538.7**	303.5	684.8
Income tax benefit			
Current operations	**(183.4)**	(250.8)	(131.5)
Fresh start adjustment from the Revenue Reconciliation Act of 1990	—	(139.0)	
	722.1	693.3	816.3
Equity in net income (loss) of unconsolidated companies and minority interest	**.4**	(2.5)	(1.1)
Income from continuing operations	**722.5**	690.8	815.2
Discontinued operations gain on disposal, net of tax expense of $5.5	—	10.5	—
Group income	**$ 722.5**	$ 701.3	$ 815.2

See notes to Consolidated and Allstate Insurance Group summarized financial statements.

Analysis of Operations

Allstate Insurance Group revenues increased $1.15 billion or 6.3% in 1991 following a $1.40 billion increase in 1990. Group income increased 30.9% to $722.5 million compared with income from continuing operations of $551.8 million before a one-time tax benefit of $139 million for 1990. Improvements in property-liability underwriting results and investment income more than offset a decrease in realized capital gains. Income for 1990 of $701.3 million included the one-time tax benefit from the Revenue Reconciliation Act of 1990 and a $10.5 million adjustment of reserves from discontinued group life-health operations.

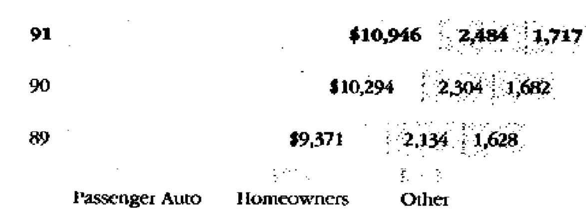
Property-Liability Operations

Premiums written increased 3.8% in 1991 compared with an 8.9% increase in 1990. During 1991, Allstate changed its method of recording premiums written to be consistent with a change in regulatory accounting, causing a one-time reduction of $211.7 million for the year. If the former method had been continued, premiums written would have increased 5.3% for 1991. This change did not affect premiums earned or net income. Growth in average premiums generated approximately 60% of the increase in premiums written before the adjustment and higher unit sales contributed 40%. Premiums earned for the property-liability operations increased $866.5 million or 6.1% to $15.15 billion for 1991 compared with 1990. Personal lines accounted for 93% of Allstate's property-liability business in 1991.

Supplementary income statement information:

$ millions	1991	1990	1989
Premiums written	$15,261.8	14,696.1	13,490.1
Premiums earned	$15,147.0	14,280.5	13,133.0
Claims and claims expense	$12,574.6	12,198.8	10,873.6
Claims and claims expense ratio	83.0%	85.4	82.8
Underwriting expenses	$ 3,705.5	3,500.6	3,241.4
Underwriting expense ratio	24.5%	24.5	24.7
Underwriting loss	$(1,133.1)	(1,418.9)	(982.0)
Combined ratio	107.5%	109.9	107.5
Investment income, less expense	$ 1,397.2	1,296.9	1,252.0
Realized capital gains, after-tax	$ 24.9	109.8	131.8
Income tax benefit on operations (excluding tax on realized capital gains)	$ (267.5)	(394.9)	(280.1)
Fresh start tax benefit	$ —	(139.0)	—
Net income	$ 556.9	516.9	653.9

Property-liability premiums earned
(millions)



Recently, the automobile insurance industry has been under pressure from certain state regulators and legislators to reduce, freeze or set premiums at levels that do not correspond with underlying costs. This activity has adversely affected profitability since the increased costs of litigation and medical treatment, combined with rising automobile repair costs, continue to drive up the price of providing automobile insurance coverage. Although the breadth of this activity has diminished, management expects adverse legislative and regulatory activity to continue in a limited number of states which threaten to place constraints on Allstate's ability to price automobile insurance coverage to reflect its underlying cost and to provide for reasonable levels of profitability.

Allstate believes that the law of the United States, and of essentially all states, generally assures that a regulated insurer must be granted the opportunity to earn a fair and reasonable return from its automobile insurance business. Allstate will continue to vigorously pursue relief from adverse government actions through the regulatory administrative processes and in the courts. As described in note 4, the financial impact of this changing environment on Allstate's future results of operations is not presently determinable but is not expected to have a material impact on liquidity or capital resources.

In September 1991, Allstate filed with the New Jersey Insurance Commissioner a plan for the gradual and orderly withdrawal from the property-liability insurance market in the state of New Jersey over a period of time that could extend beyond the next five years. The plan is subject to approval by the New Jersey Department of Insurance. Property-liability insurance premiums earned in New Jersey amounted to approximately 3.4% of total premiums earned for 1991. Allstate believes that implementation of the withdrawal plan will have a favorable impact on future underwriting results.

Property-liability insurance underwriting losses improved as Allstate's combined ratio returned to 107.5% in 1991 after the ratio rose to 109.9% in 1990 from 107.5% in 1989. Underwriting losses decreased to $1.13 billion in 1991 compared with $1.42 billion in 1990 which was a $436.9 million increase from 1989. Most of the underwriting improvement is due to favorable trends in the number of claims reported and increased average premiums which were partially offset by continuing increases in average claim costs for auto injury coverages and less favorable results in homeowners' coverages. Personal lines of business produced improved results despite extremely high catastrophe losses in 1991. Catastrophe losses for the last three years have been well in excess of historical trends. Improvements in current operations of commercial lines of business were more than offset by upward development of losses for prior years.

Pretax net investment income increased $100.3 million or 7.7% in 1991 compared with a $44.9 million increase in 1990. Improvement in investment income followed improved cash flow from insurance operations in spite of lower interest rates in the current period. Realized capital gains after-tax were $24.9 million in 1991 compared with $109.8 million in 1990.

Income increased to $556.9 million in 1991 compared with $377.9 million before the fresh start benefit in 1990, and $653.9 million in 1989. Underwriting losses stabilized in 1991 to levels consistent with 1989 and prior years, following unusually high underwriting losses in 1990. Also, prior years involved substantially more capital gains than the current year.

Life Operations

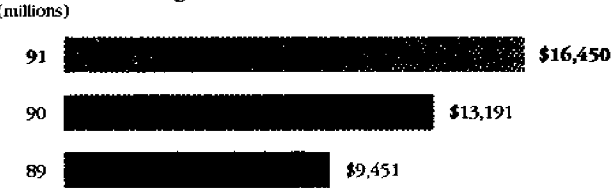
Life insurance statutory premiums from continuing operations, which includes premiums and deposits received for all products, remained level in 1991 compared with 1990. Most lines of business increased during 1991, except for individual annuity product premiums which decreased from high levels in 1990 that were generated by rollovers of annuity funds from other companies. Under generally accepted accounting principles, premium income and contract charges, which are significantly influenced by the type of products sold, increased $30.8 million in 1991 following a $45.4 million decrease in 1990.

Supplementary income statement information:

millions	1991	1990	1989
Statutory premiums from continuing operations	$4,221.5	4,251.9	3,275.7
Premium income and contract charges	$1,196.9	1,166.1	1,211.5
Investment income, less expense	$1,604.2	1,274.4	983.2
Realized capital gains (losses), after-tax	$ (21.7)	9.8	15.6
Income taxes on operations (excluding tax on realized capital gains (losses))	$ 82.4	82.5	72.6
Income from continuing operations	$ 165.6	173.9	161.3
Discontinued operations	$ --	10.5	--
Net income	$ 165.6	184.4	161.3

A principal measure of growth of the life operations is the increase in assets under management which are the investments Allstate has made with the proceeds from the sale of investment-oriented products. Assets under management grew 24.7% in 1991 and 39.6% in 1990 to reach $16.45 billion at Dec. 31, 1991. Continued strong growth of assets under management is the major factor which caused investment income to grow to $1.60 billion in 1991 or 25.9% after a 29.6% increase in 1990.

Assets under management
(millions)



Income from continuing operations was $165.6 million in 1991 compared with $173.9 million in 1990 and $161.3 million in 1989. The decrease in 1991 net income was caused by a reduced level of capital gains. Realized capital losses, after income taxes, were $21.7 million in 1991 compared with realized capital gains of $9.8 million in 1990. The change resulted from net losses on the high yield bond and commercial mortgage loan portfolios of $68.3 million in 1991 compared to $15.2 million in 1990.

Summarized Statements of Financial Position

millions	December 31 1991	1990
Assets		
Investments (note 1)		
Bonds and redeemable preferred stocks, at amortized cost (market $27,220.3 and $22,397.1)		
State and municipal	$15,112.3	$13,576.8
Other	10,239.4	8,444.5
	25,351.7	22,021.3
Mortgage-backed securities (market $4,905.8 and $3,712.1)	4,534.0	3,631.4
Mortgage loans	3,862.8	3,217.3
Common and preferred stocks, at market (cost $2,876.9 and $2,421.8)	3,416.5	2,374.4
Short-term	860.6	1,495.8
Other	835.5	769.7
Total investments	38,861.1	33,509.9
Premium installment receivables	1,793.6	1,727.2
Deferred policy acquisition costs (note 2)	1,422.3	1,235.4
Property and equipment, net	948.0	842.5
Accrued investment income	669.2	613.0
Investments in unconsolidated companies	118.1	117.5
Deferred income taxes	618.3	494.8
Cash	217.4	96.8
Other	1,127.8	1,313.2
Total assets	$45,775.8	$39,950.3
Liabilities		
Reserve for property-liability insurance claims and claims expense (note 3)	$12,426.3	$11,376.3
Reserve for life insurance policy benefits	17,787.7	14,367.9
Unearned premiums	5,094.2	5,006.0
Claim payments outstanding	373.7	342.9
Other liabilities and accrued expenses	1,942.9	1,730.5
Total liabilities	37,624.8	32,823.6
Capital (note 1)	8,151.0	7,126.7
Total liabilities and capital	$45,775.8	$39,950.3

See notes to Consolidated and Allstate Insurance Group summarized financial statements.

Analysis of Financial Condition

Allstate's investment strategy combines the elements of safety, stability, growth and liquidity in a manner which maximizes the benefits to the policyholder. Preservation of principal is safeguarded through quality and diversification of the portfolio. Such diversification provides the balance necessary to maintain predictability of income, growth of long-term capital and surplus and a strong liquidity position.

Total assets and investments both increased approximately 15%, in proportion to the increase in premiums and annuity deposits. As of Dec. 31, 1991 and 1990, Allstate's investments in bonds and redeemable preferred stocks were $25.4 and $22.0 billion, respectively, representing 65% and 66% of total investments. The market value of the bonds and redeemable preferred stocks rose $1.49 billion in 1991 increasing the unrealized gain to $1.87 billion at the end of 1991 from $375.8 million at the end of 1990.

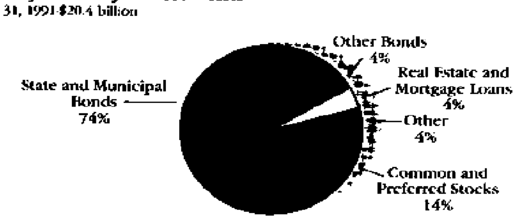
Allstate's investment in common and nonredeemable preferred stocks at cost increased by $455.1 million or 18.8% in 1991, combined with an increase in unrealized capital gains of $587.0 million, resulting in net growth of 43.9%. The stock portfolio experienced the greatest rate of growth of any single type of investment during the year.

Property-Liability Investments

State and municipal tax-exempt bonds comprise 74% of the property-liability investment portfolio as shown in the chart above. Approximately 98% of these state and municipal bonds are rated investment grade. These ratings are determined by Standard & Poor's or Moody's or, in the case of the nonrated issues (18% of the total), by comparable National Association of Insurance Commissioners Security Valuation Office ratings. At Dec. 31, 1991, the municipal bond portfolio includes nonperforming bonds approximating one-tenth of 1% of the total portfolio. The average quality rating of this bond portfolio was A+ at Dec. 31, 1991.

Property-liability funds are also invested in common stocks for their high potential for long-term growth and return. Because this portfolio has generated the highest overall return for the last nine years, more funds were committed to this sector in 1991. Most of the equity portfolio is devoted to blue chip stocks and a significant percentage is devoted to small and mid-capitalization stocks.

Property-Liability Investments
at Dec. 31, 1991 $20.4 billion



Summarized Statements of Cash Flows

millions	Year Ended December 31		
	1991	1990	1989
Cash flows from operating activities			
Group income	**$ 722.5**	$ 701.3	$ 815.2
Adjustments to reconcile group income to net cash provided by operating activities			
Depreciation, amortization and other noncash items	**76.4**	69.5	106.3
Gains on sales of property and investments	**(4.8)**	(181.2)	(223.4)
Increase in insurance reserves	**1,902.0**	2,004.8	1,470.4
Change in deferred taxes	**(323.2)**	(263.8)	(65.0)
Change in net other operating assets and liabilities	**178.4**	243.4	(177.4)
Net cash provided by operating activities	**2,551.3**	2,574.0	1,926.1
Cash flows from investing activities			
Proceeds from sales and maturities of investments	**4,754.1**	2,974.1	2,990.8
Purchases of investments	**(8,459.0)**	(6,054.6)	(5,161.5)
Collections on mortgage-backed securities and mortgage loans	**828.5**	312.9	182.7
Purchases and originations of mortgage-backed securities and mortgage loans	**(2,390.9)**	(1,993.3)	(1,749.5)
Net change in short-term investments	**635.2**	(354.7)	303.6
Net purchases of property and equipment	**(256.5)**	(224.2)	(181.1)
Net cash used in investing activities	**(4,888.6)**	(5,339.8)	(3,615.0)
Cash flows from financing activities			
Payments received under investment contracts	**2,914.9**	2,898.1	1,924.0
Interest credited to investment contracts	**911.0**	707.9	512.3
Payments on maturity of investment contracts and other charges	**(1,258.1)**	(708.4)	(500.0)
Dividends paid to Corporate	**(109.9)**	(108.4)	(330.0)
Net cash provided by financing activities	**2,457.9**	2,789.2	1,606.3
Net increase (decrease) in cash	**$ 120.6**	$ 23.4	$ (82.6)
Cash at beginning of year	**$ 96.8**	$ 73.4	$ 156.0
Cash at end of year	**$ 217.4**	$ 96.8	$ 73.4

See notes to Consolidated and Allstate Insurance Group summarized financial statements.

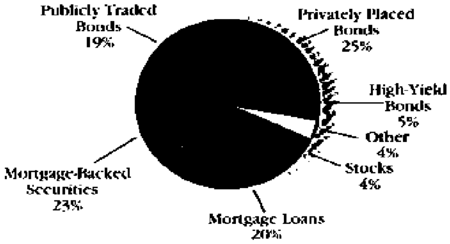
Analysis of Financial Condition continued

Life Investments

Allstate Life's investment policy places an emphasis on the matching of assets with related liabilities while also maintaining a strong liquidity position. To achieve an economic balance between assets and liabilities, the investment portfolios are segmented by the type of insurance product.

This strategy places over 95% of the Life portfolio in fixed income securities which include publicly traded bonds, privately placed bonds, mortgage-backed securities, mortgage loans and high-yield bonds to support the investment-oriented product lines. Publicly traded investment grade corporate bonds are purchased to be held to maturity. The average quality rating is a solid A, and 40% are invested in utilities. In addition, Allstate's professional investment managers have the capability to evaluate and invest in private placement bonds which have comparable investment quality as public securities but offer higher yields. The overall quality rating of the private placement portfolio is A−.

Life Investments
at Dec. 31, 1991-$18.5 billion



During the last several years, mortgage-backed securities have grown to the second largest category of investment in the Life portfolio. Most of the issues are government agency securities and almost all are AAA credit quality. At the same time, Allstate's commitment to mortgage loans has also grown through commercial mortgages. These are investment grade first mortgages on completed commercial properties located in the top 50 major metropolitan areas. By adhering to strict underwriting guidelines, Allstate has limited nonaccrual and restructured loans to 3.1% of the portfolio at Dec. 31, 1991.

A portion of the portfolio is invested in high-yield bonds providing extra income and expected yield to offset the higher expected credit risk. Allstate has implemented a strategy to minimize the risk of these investments by spreading the portfolio over 30 industry categories and 150 different companies with no more than a $15 million exposure to a single issuer. Most importantly, an issuer's credit strength is monitored continuously while the investments are held. The high-yield bond holdings are expected to decline in the future.

Cash Flow

Allstate generates substantial positive cash flows from operating activities. The primary sources of cash flow are insurance premiums, annuity deposits, investment income and the maturity and sale of investments. Most insurance premiums and deposits are received in advance of the time when claims and policyholders benefits are paid. The resulting cash flow is invested until required for operations.

ALLSTATE INSURANCE GROUP

ANALYSIS OF FINANCIAL CONDITION continued

Insurance operations typically do not require significant amounts of operating assets. As a result, Allstate has no debt or capital lease obligations. The long-term liquidity requirements of insurance companies are influenced by product mix and the interest rate environment.

New funds from operations and financing totaled $5.01 billion for 1991 compared with $5.36 billion in 1990. The property-liability share of the funds increased to $1.88 billion in 1991 from $1.45 billion for 1990. Cash from underwriting operations increased primarily because losses paid decreased in line with the decrease in the underwriting loss. Life operations continue to provide the largest portion of the funds with $3.13 billion in 1991, down from $3.91 billion in 1990 due primarily to reduced levels of individual annuity rollovers from other companies.

The net change in cash and short-term investments showed a decrease of $514.6 million in 1991 after a $378.1 million increase in 1990. Generally, Allstate kept available funds more fully invested in 1991 as potential growth opportunities arose in the securities markets and short-term yields became less attractive.

NOTES TO SUMMARIZED FINANCIAL STATEMENTS

Summary of significant accounting policies

Basis of presentation

The summarized financial statements of Allstate Insurance Group include property-liability insurance, life insurance and adjunct business operations such as Allstate Motor Club.

The financial statements have been prepared on the basis of generally accepted accounting principles which vary from statutory accounting principles prescribed or permitted by regulatory authorities. On a statutory basis, capital of the property-liability operations was $5.4 and $4.7 billion and capital of the life operations was $900.3 and $800.4 million at Dec. 31, 1991 and 1990, respectively. Statutory net income of the property-liability operations was $172.9 million and $19.6 million and statutory net income of the life operations was $139.6 million and $150.1 million in 1991 and 1990, respectively.

Investments

Bonds, redeemable preferred stocks and mortgage-backed securities are carried at amortized cost and are intended to be held to maturity; mortgage loans are carried at the outstanding principal balance, net of unamortized premium or discount; other preferred and common stocks are carried at quoted market values; short-term investments are carried at cost; other investments, which include real estate, are primarily accounted for by the equity method.

The difference between cost and market value of common and nonredeemable preferred stocks, less deferred income taxes and minority interest, is reflected in capital. Realized capital gains and losses are determined on a specific identification basis.

Property-liability insurance

Premiums are deferred and earned on a pro rata basis over the terms of the policies. Certain costs of acquiring insurance business, principally agents' compensation and premium taxes, are deferred and amortized to income as premiums are earned.

The reserve for claims and claims expense is an accumulation of the estimated amounts, net of estimated salvage and subrogation recoveries, necessary to settle outstanding claims, based upon the facts in each case and Allstate's experience with similar cases. These estimates are continually reviewed and updated. Any resulting adjustments are reflected in current operations.

Life insurance

Premiums for traditional life and disability insurance are recognized as revenue when due. Revenues on universal life-type contracts are comprised of contract charges and fees which are recognized when assessed against the policyholder account balance. Investment contracts do not involve substantial risk of policyholder mortality and the payments received under such contracts are recorded as interest-bearing liabilities.

Policy benefit reserves for traditional life and disability are computed on the basis of assumptions as to future investment yields, mortality, morbidity and expenses. These assumptions, which for traditional life are applied using the net level premium method, include provisions for adverse deviation and generally vary by such characteristics as plan, year of issue and policy duration. Policy benefit reserves for universal life-type contracts are established using the retrospective deposit method. Under this method, liabilities are equal to the account balance that accrues to the benefit of the policyholder.

Certain costs of acquiring insurance business, principally agents' compensation, certain underwriting costs and direct mail solicitation expenses, are deferred and amortized to income in proportion to the estimated revenues on such business. For universal life-type and investment contracts, the costs are amortized in relation to the estimated profits on such business.

Related party transactions

Insurance premiums include transactions with Sears, Roebuck and Co. and other affiliates. The effect on Group revenues and income is not material.

1. Investments

Investment income by category of investment was as follows:

millions	Year Ended December 31		
	1991	1990	1989
Bonds and redeemable preferred stocks			
State and municipal	$1,164.0	$1,087.1	$1,028.9
Other	891.5	740.2	595.4
	2,055.5	1,827.3	1,624.3
Mortgage-backed securities	398.9	298.2	226.3
Mortgage loans	358.2	277.9	200.8
Common and preferred stocks	80.7	73.5	84.9
Short-term	124.2	139.2	133.1
Other	24.3	9.2	17.2
Investment income, before expense	3,041.8	2,625.3	2,286.6
Investment expense	40.4	54.0	51.4
Investment income, less investment expense	$3,001.4	$2,571.3	$2,235.2

At Dec. 31, 1991, the carrying value of all investments, excluding common and preferred stocks, that were non-income producing during 1991 was $86.3 million.

Realized capital gains (losses), less income taxes, and changes in unrealized net capital gains, less applicable tax effect and minority interest, for bonds and stocks were as follows:

millions	Year Ended December 31		
	1991	1990	1989
Bonds and redeemable preferred stocks			
Realized	$ 12.4	$ (.4)	$ (2.7)
Change in unrealized	985.3	(245.3)	355.7
Common and preferred stocks			
Realized	32.4	120.3	160.2
Change in unrealized	378.4	(267.9)	85.0

Unrealized capital gains and losses on common and preferred stocks included in capital at Dec. 31, 1991 were as follows:

millions	Cost	Market Value	Gross Unrealized Gains	Gross Unrealized (Losses)	Net Unrealized Gains (Losses)
Common and preferred stocks	$2,876.9	$3,416.5	$656.6	$(117.0)	$ 539.6
Deferred income tax and other					(174.2)
Total					$ 365.4

2. Deferred policy acquisition costs

Policy acquisition costs deferred and amortized to income were as follows:

millions	Year Ended December 31		
	1991	1990	1989
Costs deferred and amortized			
Amount deferred	$2,006.7	$1,908.6	$1,726.7
Amount amortized to income	1,819.8	1,746.1	1,581.2

3. Reinsurance

Allstate assumes and cedes insurance to participate in the reinsurance market, limit maximum losses and minimize exposure on large risks. Reinsurance ceded arrangements do not discharge Allstate as the primary insurer.

Reserves for insurance claims and policy benefits are shown net of amounts recoverable from other insurers of $1.4 billion at Dec. 31, 1991 and 1990. Insurance premiums assumed totaled $781.7 and $906.3 million in 1991 and 1990, respectively. Insurance premiums ceded totaled $428.8 and $403.3 million for the same periods. Amounts recoverable from pools, associations and facilities on reported losses at Dec. 31, 1991 are $325.6 million. No amount recoverable from any one reinsurer is in excess of $105.8 million at Dec. 31, 1991.

4. Pending legal proceedings

Various regulatory and legal actions are currently pending involving Allstate and specific aspects of the conduct of business in certain states. The following is a summary of the more significant proceedings.

On Nov. 8, 1988 California voters approved Proposition 103, which called for certain changes in the insurance business in the state and for significant rate reductions ("rollback provision") on policies written from Nov. 8, 1988 through Nov. 7, 1989. In the more than three years that have followed, various aspects of this consumer initiative have been tested in the courts, all of which have failed to produce any legally mandated policyholder refunds.

The California Supreme Court upheld most of Proposition 103, however, the Court also ruled that insurers be permitted the opportunity to earn a fair and reasonable rate of return. During 1989 and 1990, the Insurance Commissioner of the State of California undertook a number of administrative actions aimed at facilitating the adjudication of refund liabilities, but no refund order ever was issued to Allstate from that process.

In January 1991, the newly elected Commissioner issued a set of regulations purportedly implementing the rollback provision of Proposition 103. These regulations are also being legally challenged by the insurance industry. On Oct. 16, 1991, the Commissioner issued an order pursuant to those regulations contending that Allstate be required to refund premiums and interest of $243.7 million.

The Superior Court of California has ruled that, before any order requiring rollbacks to be paid may lawfully be finalized, each individual insurer must be granted its due process right to a company-specific hearing as to whether any rollback liability exists, given the circumstances of the particular insurer. Management believes that its rates and practices have been proper, that its position will ultimately be upheld by the courts, and that it will not be required to refund monies to California policyholders.

In North Carolina, Allstate is challenging regulatory actions that would result in refunds of auto premiums to policyholders under certain conditions. The matter is pending review of the North Carolina Supreme Court. In Massachusetts, Allstate is involved in litigation with the Commonwealth Automobile Reinsurers (the auto residual market authority) concerning Allstate's withdrawal from that state. In both cases, management believes its position will be upheld.

The Internal Revenue Service (IRS) has asserted a federal income tax deficiency on Allstate's mortgage insurance subsidiaries by deferring deductions for incurred losses to the time that the insured lender takes title to a mortgagor's property. On Jan. 24, 1991, the Tax Court, in conference proceedings, upheld the IRS position. Allstate is vigorously appealing the lower court decision to the U.S. Court of Appeals. Management believes that Allstate will prevail on this industry-wide issue.

While the aggregate dollar amounts involved in these regulatory and legal actions cannot be determined with certainty, the amounts at issue could have a significant impact on earnings. However, the excess of any liabilities over the amounts currently provided that might result from an adverse final determination in one or more of the above mentioned matters is not expected to have a material effect on liquidity or capital resources.

DEAN WITTER FINANCIAL SERVICES GROUP

SUMMARIZED STATEMENTS OF INCOME

millions	1991	1990	1989
		Year Ended December 31	
Revenues			
Interest	**$2,168.0**	$2,254.3	$2,044.4
Commissions	**696.7**	666.5	694.0
Asset management	**515.8**	491.7	435.3
Trading	**460.5**	362.7	277.1
Investment banking	**197.4**	206.4	236.3
Other operating revenues	**903.6**	625.2	377.5
Total revenues	**4,942.0**	4,606.8	4,064.6
Costs and expenses			
Interest	**1,128.5**	1,256.4	1,188.2
Personnel	**1,371.2**	1,278.4	1,198.6
Provision for loan losses	**465.4**	420.8	300.6
Other operating costs and expenses	**1,421.3**	1,247.5	1,080.4
Total costs and expenses	**4,386.4**	4,203.1	3,767.8
Income before income taxes	**555.6**	403.7	296.8
Income taxes	**211.0**	170.8	130.8
Group income	**$ 344.6**	$ 232.9	$ 166.0

See notes to Consolidated and Dean Witter Financial Services Group summarized financial statements.

ANALYSIS OF OPERATIONS

Revenues of Dean Witter Financial Services Group increased 7.3% in 1991 and 13.3% in 1990 over the respective prior years. The 1991 increase was primarily attributable to increased interest and fee revenues for Credit Services, and increased trading and commission revenues in Securities. The 1990 increase was primarily due to increased interest and fee revenues for Credit Services, and higher asset management and trading revenues in Securities.

Net income reported by the Group in 1991 represented a $111.7 million improvement over 1990, due to increased profitability for both Securities and Credit Services. Group income in 1990 increased $66.9 million over 1989, primarily due to higher profitability for Credit Services.

Securities statements of income follow:

millions	1991	1990	1989
Interest	$ 507.1	$ 635.0	$ 650.7
Commissions	696.7	666.5	694.0
Asset management	515.8	491.7	435.3
Trading	460.5	362.7	277.1
Investment banking	197.4	206.4	236.3
Other	123.9	113.6	56.0
Total revenues	2,501.4	2,475.9	2,349.4
Personnel	1,108.0	1,072.3	1,029.1
Interest	355.4	486.3	492.4
Other	756.3	709.4	637.5
Total expenses	2,219.7	2,268.0	2,159.0
Operating income	281.7	207.9	190.4
Income taxes	110.7	98.9	90.2
Net income	$ 171.0	$ 109.0	$ 100.2
Assets under management	$ 49,041	$ 42,546	$ 42,733

Net interest income increased 2.0% in 1991 due to improved spreads on repurchase and resell agreements, as well as customer margin lending. In 1990, net interest income decreased 6.1% due to the decision to exit program trading and because of lower interest rates.

Commission revenues increased 4.5% in 1991 and decreased 4.0% in 1990, primarily due to the fluctuation of activity in listed securities.

Asset management revenues increased 4.9% in 1991 due to increased levels of assets under management. In 1990, asset management revenues increased 13.0% primarily due to the full year results of the transfer agency function which was acquired during the fourth quarter of 1989.

Trading revenues increased 27.0% and 30.9% in 1991 and 1990, respectively. These increases were due to higher equity trading revenues and higher fixed income trading revenues from government securities.

Investment banking revenues decreased 4.4% and 12.7% in 1991 and 1990, respectively. These decreases were due to lower fees recorded in the various corporate finance activities.

Personnel expenses increased 3.3% in 1991 primarily due to the increase in variable compensation related to higher trading volume. Other operating expenses increased 6.6% in 1991 primarily reflecting the growth in operating revenue for the period. In 1990, personnel expenses increased 4.2% and other operating expenses increased 11.3%, primarily as a result of additional personnel and facilities from the acquisition of the transfer agency function and certain other business expansions during the fourth quarter of 1989.

Net income increased $62.0 million in 1991 as a result of higher trading and commission revenues and increased asset management fees. Net income increased $8.8 million in 1990 as a result of higher trading revenues and increased asset management fees.

Summarized Statements of Financial Position

millions	December 31 1991	1990
Assets		
Cash and invested cash	**$ 558.2**	$ 565.8
Cash segregated under government regulations	**1,333.9**	1,250.1
Securities purchased under agreements to resell	**2,681.8**	2,269.5
Discover Card receivables (net of allowances of $294.4 and $280.6)	**8,724.2**	8,610.6
Receivables from clients and others–collateralized	**3,447.6**	3,842.5
Securities, at market value (note 2)	**2,377.9**	1,181.0
Consumer finance notes	**1,026.8**	1,467.2
Other assets	**3,229.0**	2,503.5
Total assets	**$23,379.4**	$21,690.2
Liabilities		
Deposits (note 1)	**$ 5,074.8**	$ 4,754.5
Securities sold under agreements to repurchase (note 3)	**3,791.6**	2,349.8
Borrowings (note 3)	**6,388.1**	6,540.3
Payable to clients and others	**4,168.2**	4,579.1
Securities sold but not yet purchased, at market value (note 2)	**462.0**	500.1
Other liabilities	**1,374.9**	1,101.5
Total liabilities	**21,259.6**	19,825.3
Capital	**2,119.8**	1,864.9
Total liabilities and capital	**$23,379.4**	$21,690.2

See notes to Consolidated and Dean Witter Financial Services Group summarized financial statements.

Analysis of Operations continued

Credit Services statements of income follow:

$ millions	1991	1990	1989
Interest revenue	$ 1,660.9	$1,619.3	$1,393.7
Interest expense	773.1	770.1	695.8
Net interest income	887.8	849.2	697.9
Servicing fee income	247.0	81.2	3.3
Provision for loan losses	448.4	413.5	296.7
Net credit income	686.4	516.9	404.5
Operating revenues	532.7	430.4	318.2
Operating expenses	945.2	751.5	616.3
Income before taxes	273.9	195.8	106.4
Income taxes	100.3	71.9	40.6
Net income	$ 173.6	$ 123.9	$ 65.8
Discover Card:			
Gross receivables at Dec. 31	$14,683.6	11,591.5	8,538.9
Receivables sold at Dec. 31	$ 5,665.0	2,700.3	—
Average owned receivables	$ 8,504.8	8,367.1	6,712.6
Cardmembers (thousands)	41,162	37,773	32,722
Merchant outlets (thousands)	1,433	1,244	1,080
Credit Services:			
Ratio of net charge-offs to average owned loans	3.40%	3.08	2.63
Loans delinquent three months or more	1.60%	1.44	1.27
Auto, home equity and other loan volume (principal)	$ 397	668	530

Net interest income increased 4.5% in 1991 primarily due to the continued growth of credit card receivables and lower average interest rates on borrowings. In 1990, net interest income increased 21.7% due to the significant growth in credit card receivables, partially offset by the initial sale of receivables through the use of asset-backed securities.

The provision for loan losses on owned receivables increased 8.4% in 1991 primarily due to higher net charge-offs. In 1990, the provision for loan losses on owned receivables increased 39.4%, primarily due to higher net charge-offs and the continued growth of credit card receivables.

Operating revenues increased significantly in both 1991 and 1990 due to continued growth in credit card activities. Additionally, in 1991 and 1990, servicing fees increased significantly due to the servicing of receivables sold through the use of asset-backed securities.

Discover Cardmembers
(thousands)

Operating expenses increased 25.8% in 1991 compared with 21.9% in 1990. For 1991 and 1990, increased personnel and promotional expenses reflect the increased credit card volume and the expansion of services to Cardmembers and merchants.

Net income for Credit Services increased $49.7 million in 1991 compared with an increase of $58.1 million in 1990. The improvement of earnings in 1991 and 1990 can be attributed to the growth of credit card activities.

DEAN WITTER FINANCIAL SERVICES GROUP

Summarized Statements of Cash Flows

millions	Year Ended December 31		
	1991	1990	1989
Cash flows from operating activities			
Group income	**$ 344.6**	$ 232.9	$ 166.0
Adjustments to reconcile group income to net cash provided by operating activities			
Depreciation, amortization and other noncash items	**50.1**	44.4	48.2
Provisions for uncollectible accounts	**465.4**	425.8	304.3
Change in deferred taxes	**(91.0)**	(71.4)	(66.8)
Change in net matched agreements to resell or repurchase securities	**1,206.8**	10.8	(77.2)
Increase in net trading account securities	**(1,235.0)**	(411.9)	(420.1)
Decrease (increase) in brokerage receivables	**377.9**	(639.4)	(173.2)
Increase (decrease) in brokerage payables	**(410.9)**	899.2	537.4
Increase in cash segregated under government regulations	**(83.8)**	(284.0)	(279.3)
Change in net other operating assets and liabilities	**(363.2)**	(363.6)	239.6
Net cash provided by (used in) operating activities	**260.9**	(157.2)	278.9
Cash flows from investing activities			
Proceeds from sales of investments	**6.3**	.6	289.2
Purchases of investments	**(14.1)**	(7.7)	(8.6)
Collections on and sales of consumer finance notes	**842.4**	459.0	1,395.3
Originations of consumer finance notes	**(408.6)**	(662.3)	(1,022.5)
Net purchases of property and equipment	**(60.7)**	(38.1)	(64.9)
Increase in Discover Card receivables	**(534.7)**	(725.8)	(2,654.0)
Net cash used in investing activities	**(169.4)**	(974.3)	(2,065.5)
Cash flows from financing activities			
Net increase (decrease) in long-term debt	**1,187.8**	252.3	(4.6)
Change in net unmatched agreements to resell or repurchase securities	**(177.3)**	334.5	(93.3)
Increase (decrease) in deposits	**320.3**	(703.9)	827.5
Net increase (decrease) in short-term borrowings, primarily 90 days or less	**(1,340.2)**	1,476.0	1,059.9
Dividends paid to Corporate	**(109.7)**	(100.4)	(79.4)
Net capital transfers from Corporate	**20.0**	20.3	13.9
Net cash provided by (used in) financing activities	**(99.1)**	1,278.8	1,724.0
Net increase (decrease) in cash and invested cash	**$ (7.6)**	$ 147.3	$ (62.6)
Cash and invested cash at beginning of year	**$ 565.8**	$ 418.5	$ 481.1
Cash and invested cash at end of year	**$ 558.2**	$ 565.8	$ 418.5

See notes to Consolidated and Dean Witter Financial Services Group summarized financial statements.

Analysis of Financial Condition

Securities assets are extremely liquid and can be readily converted to cash. Cash and liquid assets, which consists principally of securities inventory, receivables from brokers, dealers and clients, and securities purchased under agreements to resell, represent more than 85% of total Securities assets at Dec. 31, 1991. Short-term borrowings are used to finance the purchase of securities by clients on margin, to facilitate the securities settlement process and to finance the trading account securities inventory. Letters of credit are utilized in lieu of cash or security margin deposits required by various clearing associations wherever possible. Portions of liabilities, such as credit balances of clients, certain payables to brokers on securities transactions and other liabilities are noninterest bearing and, therefore, an important source of funds.

Credit Services experienced continued growth in assets in 1991 and 1990. Owned assets increased 5.5% in 1991 and 12.6% in 1990. Assets, including securitized assets, increased 26.2% in 1991 and 38% in 1990. Consumer and institutional deposits, asset securitizations, Discover Credit Corp. commercial paper and intermediate-term financing and short-term bank related borrowings were the principal sources of funding. The Group has diversified access to cost-effective sources of short-term borrowings and maintains an appropriate mix of fixed and variable rate borrowings. Debt is allocated from Corporate to fund certain Discover Card receivables, as required by regulations, with interest charges allocated at a rate approximating the short-term cost of funds.

Notes to Summarized Financial Statements

Summary of significant accounting policies

Basis of presentation

The summarized financial statements of Dean Witter Financial Services Group include Securities and Credit Services activities. Securities consists of securities and futures brokerage services, asset management, investment banking, securities trading and securities lending. Credit Services includes credit card services and consumer finance services.

Securities

Client transactions are recorded on settlement date with related commission revenues and expenses recorded on a trade date basis. Proprietary security transactions are recorded on the trade date. Securities are valued at market, and the unrealized gains and losses are reflected in income.

Transactions in forward contracts and futures are open contractual commitments until settlement date. Open contracts are valued at market and the resulting unrealized gains and losses are reflected in income.

Security transactions under agreements to resell and repurchase are carried at the contract amounts at which the securities will be resold or reacquired. Additionally, the Group takes possession of the securities under agreements to resell at the time such agreements are made. In the event the market value of such securities falls below the related agreement to resell, the Group will request additional collateral.

Credit card services

Interest on loans is credited to income as earned. Generally, interest is accrued on loans until the date of charge-off. The interest portion of the charge-off is written off against interest income. Merchant discount revenue is accrued as earned. Service fee income is recorded when billed.

The allowance for possible loan losses is established through a provision charged to expense. Loans are charged against the allowance when management believes that collectibility of the principal is unlikely. The allowance is management's estimate of the future uncollectibility of existing loans. Factors such as prior loan loss experience, changes in the volume of the loan portfolio, and overall portfolio quality are considered in determining the adequacy of the allowance.

Consumer finance

Revenues from consumer finance notes are deferred and amortized to income over the terms of the loans. Direct loan origination costs are deferred and amortized over the estimated lives of the loans using the level yield method.

1. Deposits by type follow:

$ millions	December 31	
	1991	1990
Demand accounts	$1,264.0	$ 985.4
Consumer certificate accounts	422.4	308.5
$100,000 minimum certificate accounts	3,388.4	3,460.6
Total	$5,074.8	$4,754.5
Weighted average interest rate at Dec. 31	8.00%	8.55%

A summary of deposits by year of maturity follows:

millions	December 31, 1991
Demand accounts	$1,264.0
Certificate accounts maturing in	
1992	1,220.4
1993	617.3
1994	425.2
1995	222.2
1996 and thereafter	1,325.7
Total	$5,074.8

2. Securities owned and securities sold but not yet purchased consist of the following:

millions	December 31, 1991	
	Owned	Sold but not yet purchased
Money market instruments	$ 314.9	$ .4
U. S. Government and agency obligations	1,443.2	295.6
Municipal bonds	196.0	4.8
Corporate bonds	310.5	45.9
Corporate stocks and options	113.3	115.3
Total	$2,377.9	$462.0

3. Borrowings consisted of:

$ millions	December 31	
	1991	1990
Borrowings/allocations from Corporate	$1,346.9	$1,116.3
Bank loans	1,800.1	2,197.8
Commercial paper	2,065.7	2,961.4
Other	1,175.4	264.8
Total	$6,388.1	$6,540.3
Weighted average interest rate at Dec. 31	5.9%	8.1%

The weighted average interest rate on amounts borrowed on repurchase agreements was 4.6% and 7.6% at Dec. 31, 1991 and 1990, respectively.

COLDWELL BANKER REAL ESTATE GROUP

Summarized Statements of Income

millions		Year Ended December 31	
	1991	1990	1989
Revenues			
Real estate commissions	**$ 615.4**	$ 584.5	$ 723.2
Real estate operations	**189.0**	170.0	115.1
Interest	**572.5**	445.4	452.2
Ancillary fees and other	**236.4**	177.5	157.5
Total revenues	**1,613.3**	1,377.4	1,448.0
Costs and expenses			
Commissions and direct costs	**517.8**	490.1	532.2
Operating and administrative	**592.7**	567.8	563.7
Interest	**555.5**	465.0	467.4
Total costs and expenses	**1,666.0**	1,522.9	1,563.3
Operating loss	**(52.7)**	(145.5)	(115.3)
Gain on sale of property	**160.2**	195.0	222.2
Equity in income (loss) of real estate joint ventures (note 2)	**(2.6)**	(5.4)	.9
Income before income taxes	**104.9**	44.1	107.8
Income taxes	**44.3**	18.6	43.8
Income from continuing operations	**60.6**	25.5	64.0
Discontinued operations			
Operating income, net of income tax expense of $2.2	—	—	2.8
Gain on disposal, net of income tax expense of $77.2	—	—	59.9
Group income	**$ 60.6**	$ 25.5	$ 126.7

See notes to Consolidated and Coldwell Banker Real Estate Group summarized financial statements.

44

Analysis of Operations

After a difficult transition year in 1990, the growth and marketing strategies established in 1989 effectively positioned the Group to deal with the unique economic challenges of 1991. For the year, Group revenues increased 17.1% to $1.61 billion. This compares to a decline of 4.9% experienced in 1990.

Net income was $60.6 million in 1991, an increase of 137.6% over the prior year. Significant improvements in Residential and Mortgage income more than offset the reduced income of Homart which was caused mainly by a reduction in the gain on sale of properties. The improvement in Residential, in an unfavorable market, was attributable to aggressive cost takeouts over the last three years, increases in commission revenue retained and the successful acquisition of the assets of the residential brokerage operation of Schlott Realtors. Within Mortgage, the improvement resulted from higher servicing income and interest rate spreads on the growing mortgage warehouse of loans originated but not yet sold and loans held for investment. Income from continuing operations in 1990 declined 60.2% from the prior year due to increased operating losses and lower gains from the sale of properties. Net income for 1990 decreased by 79.9% because 1989 net income included income of $62.7 million from the sale of the discontinued Commercial division.

The cyclical downturn experienced by the residential real estate market in 1990 continued through 1991. Despite the fact that the housing affordability index reached its highest level in nearly fifteen years, sagging consumer confidence held home resale volume to a level below that of 1990 which was lower than the 1989 level. In 1991, the residential mortgage market benefited from a surge in origination volume as a result of a dramatic drop in mortgage interest rates. Refinancing activity tended to offset seasonal drops in home resales and mortgage lending activity.

The residential real estate business, which accounted for approximately 45% of the Group's 1991 revenues, reported a 6.5% increase in revenues compared with a decrease of 16.7% in the prior year. The 1991 increase was due primarily to the successful Schlott acquisition in February 1991. With 99 offices located mainly in the Northeast, Schlott was the nation's second largest independent broker. The acquisition significantly enhanced Residential's market presence and profitability in the northeastern region. This region had been particularly hard hit by the 1990 downturn but its regional home sales improved during 1991. Affiliate operations and Residential's executive relocation operation both reported record levels of revenues.

Homart Development Co. revenues, primarily shopping center and office building rents, increased $17.6 million, or 8.6%, reflecting improved shopping center and office building occupancy and the first full year of operations of properties acquired or opened during the prior year. In 1990, revenues increased 46.6% due to improved office building rents, the conversion of joint venture properties to wholly-owned status in late 1989 and shopping center acquisitions.

Sears Mortgage Group revenues increased 33.4% in 1991 versus an increase of 3.1% in 1990. During 1991, the retained servicing portfolio of Sears Mortgage Corporation increased 37% to $20.6 billion, resulting in significantly higher servicing income and economies in servicing costs per loan. Higher origination volumes and warehouse balances at Sears Mortgage Corporation, combined with higher portfolio balances within Sears Savings Bank, also contributed to the 1991 revenue increase. The 1990 increase resulted from higher origination volumes and sales of servicing by Sears Mortgage Corporation.

Summarized Statements of Financial Position

millions	December 31 1991	1990
Assets		
Investments		
Real estate investments (note 1)	**$2,000.7**	$1,926.9
Mortgage loans held for investment	**4,669.9**	3,084.0
Mortgage-backed securities held for investment	**48.9**	267.7
Mortgage-backed securities and mortgage loans held for sale	**1,764.4**	1,279.4
Investments in and advances to real estate joint ventures (note 2)	**354.9**	332.6
Total investments	**8,838.8**	6,890.6
Cash and invested cash	**204.5**	237.9
Office properties and equipment, less accumulated depreciation of $110.5 and $98.8	**115.8**	118.3
Prepaid expenses and other assets	**370.8**	259.8
Commissions and other receivables	**328.8**	296.0
Other assets	**66.3**	49.8
Total assets	**$9,925.0**	$7,852.4
Liabilities		
Long-term debt	**$1,189.3**	$1,071.1
Loans payable	**2,936.3**	1,986.3
Deposits and advances (note 3)	**4,342.6**	3,243.3
Securities sold under agreements to repurchase	**96.8**	306.4
Deferred income taxes	**112.1**	116.2
Other liabilities	**440.8**	382.5
Total liabilities	**9,117.9**	7,105.8
Capital	**807.1**	746.6
Total liabilities and capital	**$9,925.0**	$7,852.4

See notes to Consolidated and Coldwell Banker Real Estate Group summarized financial statements.

Analysis of Operations continued

Commissions and direct costs increased 5.7% from 1990 primarily as a result of higher direct operating costs of Homart properties and in line with Residential commission revenue. Residential implemented a revision to its commission structure which improved the percentage of commission revenues retained by the Group. Operating and administrative expenses increased 4.4% as compared to 1990, reflecting higher costs incurred by Sears Mortgage Corporation as a result of a doubling in branch mortgage loan production from the prior year. Within Residential, operating and administrative expenses decreased 5.1% reflecting the impact of continuing aggressive cost control programs partially offset by increased operating expenses associated with the Schlott acquisition. Interest expense increased 19.5% for the year to support a larger mortgage portfolio and higher warehouse balances in the Mortgage Group, both of which produced favorable interest spread income. Sears Savings Bank continues to adhere to a policy of limiting loan acquisitions to products where acceptable mitigation of interest rate risk is achieved. In 1990, costs and expenses decreased 2.6% primarily as a result of a 17.9% drop in Residential commission expense and cost reduction programs, partially offset by higher operating costs at Homart due to the increase in the number of owned properties.

As expected, the Group's operating income continued to be impacted by operating losses at Homart. Homart's operating losses were $106.6 million in 1991, compared with losses of $88.5 and $79.1 million in 1990 and 1989, respectively. Sales of mature properties, continued project development and increased financial leverage accounted for these higher operating losses, which included noncash charges such as depreciation and amortization amounting to $66.7, $54.4 and $40.0 million in 1991, 1990 and 1989. All other business units within the Group experienced significant improvements in operating income.

Gains on sale of property declined 14.1% to $101.3 million on an after-tax basis. The 1991 gains resulted from the sale of a wholly-owned shopping center, a partial interest in another wholly-owned shopping center and the sale of a community center. The 1990 after-tax gain of $117.9 million resulted from the sale of one wholly-owned shopping center and partial interests in a shopping center and an office building. The 1989 after-tax gains of $131.4 million resulted from the sale of partial interests in three shopping centers.

COLDWELL BANKER REAL ESTATE GROUP

Summarized Statements of Cash Flows

millions	Year Ended December 31		
	1991	1990	1989
Cash flows from operating activities			
Group income	$ **60.6**	$ 25.5	$ 126.7
Adjustments to reconcile group income to net cash provided by operating activities			
Depreciation, amortization and other noncash items	**92.8**	118.8	85.2
Gain on sale of discontinued operation	**—**	—	(137.1)
Gains on sales of property and investments	**(158.6)**	(193.1)	(213.9)
Increase (decrease) in deferred taxes	**(4.3)**	(10.5)	54.3
Change in net other operating assets and liabilities	**54.1**	101.8	(319.6)
Net cash provided by (used in) operating activities	**44.6**	42.5	(404.4)
Cash flows from investing activities			
Proceeds from sales of investments	**391.4**	265.0	575.7
Purchases of investments	**(424.2)**	(477.5)	(275.1)
Collections on mortgage-backed securities and mortgage loans	**597.0**	572.1	535.5
Purchases and originations of mortgage-backed securities and mortgage loans	**(2,578.4)**	(1,073.5)	(796.7)
Net purchases of property and equipment	**(21.7)**	(16.9)	(16.8)
Net cash provided by (used in) investing activities	**(2,035.9)**	(730.8)	22.6
Cash flows from financing activities			
Net increase (decrease) in long-term debt	**118.2**	2.0	(16.0)
Proceeds from advances from Federal Home Loan Bank	**1,318.0**	1,091.0	480.0
Repayments of advances from Federal Home Loan Bank	**(1,311.0)**	(590.0)	(670.0)
Increase (decrease) in deposits	**1,092.3**	(31.9)	(482.7)
Change in net unmatched agreements to resell or repurchase securities	**(209.6)**	(278.0)	645.6
Net increase in short-term borrowings, primarily 90 days or less	**950.0**	441.0	703.7
Dividends paid to Corporate	**—**	(12.8)	(220.6)
Net capital transfers from Corporate	**—**	32.4	6.1
Net cash provided by financing activities	**1,957.9**	653.7	446.1
Net increase (decrease) in cash and invested cash	$ **(33.4)**	$ (34.6)	$ 64.3
Cash and invested cash at beginning of year	$ **237.9**	$ 272.5	$ 208.2
Cash and invested cash at end of year	$ **204.5**	$ 237.9	$ 272.5

See notes to Consolidated and Coldwell Banker Real Estate Group summarized financial statements.

Analysis of Financial Condition

The Mortgage Group's investment loan portfolio is valued at cost. If this portfolio were valued at market, the resulting unrealized gains, which are related almost entirely to fixed rate loans, would amount to approximately 1% of mortgage loans held at Dec. 31, 1991. New additions to the portfolio have been limited in recent years to variable rate mortgage loans and fixed rate mortgages with expected short durations which are match funded.

Mortgage loans held for sale are carried at the lower of cost or market as determined in the aggregate. The increase in loans held for sale reflects the significant increase in origination volume during the fourth quarter of 1991. Nonaccrual loans (which are loans 90 days or more past due) and restructured loans were 1.1% of total mortgage loans at Dec. 31, 1991.

Net cash provided by operations was $44.6 million in 1991 and $42.5 million in 1990. The major source of cash in 1991 and 1990 was income adjusted for noncash items.

Cash used in investing activities was $2.04 billion in 1991 and $730.8 million in 1990. The major investment uses of cash were mortgage loans and real estate investments in both years.

Cash provided from financing activities was $1.96 billion in 1991 compared with $653.7 million in 1990. Beginning in 1991, the Group's short-term funding was provided by Corporate, with $2.05 billion of intercompany loans outstanding at Dec. 31, 1991. Interest is charged at a rate approximating the Company's short-term cost of funds.

Joint venture shopping centers and office buildings are developed primarily with borrowings related to those joint ventures and, therefore, are not reflected on the Group's Statements of Financial Position or Statements of Cash Flows.

Notes to Summarized Financial Statements

Summary of significant accounting policies

Basis of presentation

The summarized financial statements of Coldwell Banker Real Estate Group include real estate development, management, brokerage, mortgage banking and related financial services. The Group carries its investment in joint ventures at cost plus its undistributed share of earnings and losses since inception.

Real estate

Real estate commissions on sales are credited to income upon close of escrow or upon transfer of title. Sales commissions expense is recorded concurrently with the income transaction to which it relates. Percentage rental revenue is based on tenant sales and is recognized in the period in which the sales occur. Initial leasing costs applicable to company-owned real estate are deferred and amortized over the average life of the related leases on a straight-line basis.

Mortgage banking

Mortgage loans and mortgage-backed securities held for investment are carried at cost as it is management's intention to hold these loans to maturity. Mortgage loans and mortgage-backed securities held for sale are carried at the lower of cost or market as determined in the aggregate.

Fees for servicing loans for investors are recognized as income as the related mortgage payments are collected. For loans sold with servicing retained, excess servicing fees are recognized as an adjustment to the gain or loss on the sale of the loans. The costs of mortgage servicing purchased are deferred and amortized over the estimated average life of the related loans on a basis that approximates the estimated future stream of net servicing income.

Interest on loans is credited to income as earned to the extent considered collectible. Loan origination and commitment fees and certain direct loan origination costs are deferred and amortized to income over the estimated lives of the loans.

1. Real estate investments

millions	December 31, 1991			December 31, 1990		
	Operating	Held for or under development	Total	Operating	Held for or under development	Total
Land	$ 149.4	$253.0	$ 402.4	$ 147.5	$191.5	$ 339.0
Buildings, improvements and equipment	1,366.3	—	1,366.3	1,227.6	—	1,227.6
Construction and development costs	-	233.8	233.8	—	181.2	181.2
Residential relocation property held for clients	-	214.1	214.1	—	235.7	235.7
	1,515.7	700.9	2,216.6	1,375.1	608.4	1,983.5
Accumulated depreciation and amortization	215.9	—	215.9	56.6	—	56.6
Total	$1,299.8	$700.9	$2,000.7	$1,318.5	$608.4	$1,926.9

The amount of interest and taxes capitalized in connection with property held for or under development was $23.1, $31.8 and $37.9 million for the years ended Dec. 31, 1991, 1990 and 1989, respectively. Residential relocation property is held on behalf of corporate clients who generally assume all holding costs and risks.

2. Real estate joint ventures

At year-end 1991, Homart was a partner in 33 joint ventures formed to develop and operate regional shopping centers and other commercial property. Homart, with its partners, has jointly and/or severally guaranteed $97.6 million in borrowings for joint ventures in which it is a partner.

At Dec. 31, 1991 and 1990, combined joint venture assets (primarily shopping centers and office buildings including property under development) totaled $1.19 and $1.25 billion, and liabilities (primarily long-term debt and construction loans) totaled $520.3 and $647.2 million, respectively. Joint venture revenues for the years ended Dec. 31, 1991, 1990 and 1989 were $127.6, $123.3 and $134.1 million, respectively. Operating income (loss) before gains on property sales was $1.5, ($1.1) and $5.2 million in 1991, 1990 and 1989. Homart's share of joint venture gains on property sales of $0.6, $0.4 and $0.1 million for the years 1991, 1990 and 1989 are included in the caption "Gain on sale of property" in the accompanying Statements of Income.

3. Deposits and advances by type follow:

$ millions	December 31	
	1991	1990
Demand and passbook accounts	$ 138.3	$ 63.7
Consumer certificate accounts	2,363.1	1,710.5
$100,000 minimum certificate accounts	1,183.2	818.1
FHLB advances	658.0	651.0
Total	$4,342.6	$3,243.3
Weighted average interest rate at Dec. 31	6.89%	8.31%

A summary of deposits and advances by year of maturity follows:

millions	December 31, 1991
Demand and passbook accounts	$ 138.3
Certificate accounts and advances maturing in:	
1992	1,968.9
1993	721.1
1994	468.3
1995	279.8
1996 and thereafter	766.2
Total	$4,342.6

SEARS, ROEBUCK AND CO.

Responsibility for Financial Statements

The financial statements, including the financial analysis and all other information in this annual report, were prepared by management which is responsible for their integrity and objectivity. Management believes the financial statements, which require the use of certain estimates and judgments, fairly and accurately reflect the Company's financial position and operating results, in accordance with generally accepted accounting principles. All financial information in this annual report is consistent with the financial statements.

Management maintains a system of internal controls which it believes provides reasonable assurance that, in all material respects, assets are maintained and accounted for in accordance with management's authorizations and transactions are recorded accurately in the books and records. The concept of reasonable assurance is based on the premise that the cost of internal controls should not exceed the benefits derived. To assure the effectiveness of the internal control system, the organizational structure provides for defined lines of responsibility and delegation of authority. The Company's formally stated and communicated policies demand of employees high ethical standards in their conduct of its business. These policies address, among other things, potential conflicts of interest; compliance with all domestic and foreign laws, including those related to financial disclosure; and the confidentiality of proprietary information. As a further enhancement of the above, the Company's comprehensive internal audit program is designed for continual evaluation of the adequacy and effectiveness of its internal controls and measures adherence to established policies and procedures.

Deloitte & Touche, independent certified public accountants, have audited the financial statements of the Company and their report is presented below. Their audit also includes a study and evaluation of the Company's control environment, accounting systems and control procedures. The independent accountants and internal auditors advise management of the results of their reviews, and make recommendations to improve the system of internal controls. Management evaluates the audit recommendations and takes appropriate action.

The Audit Committee of the Board of Directors is comprised entirely of directors who are not employees of the Company. The committee reviews audit plans, internal controls, financial reports and related matters and meets regularly with the Company's management, internal auditors and independent accountants. The independent accountants and the internal auditors advise the committee of any significant matters resulting from their audits of our financial statements and internal controls and have free access to the committee without management being present.

Edward A. Brennan
Chairman, President
and Chief Executive Officer

Edward M. Liddy
Senior Vice President and
Chief Financial Officer and
Acting Comptroller

Report of Independent Certified Public Accountants

To the Shareholders and Board of Directors
Sears, Roebuck and Co.

We have audited the accompanying Consolidated Statements of Financial Position of Sears, Roebuck and Co. as of December 31, 1991 and 1990, and the related Consolidated Statements of Income, Shareholders' Equity and Cash Flows for each of the three years in the period ended December 31, 1991. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Sears, Roebuck and Co. as of December 31, 1991 and 1990, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1991, in conformity with generally accepted accounting principles.

As discussed in the summary of significant accounting policies, the Company changed its accounting for income taxes in 1991.

Deloitte & Touche

February 28, 1992
Chicago, Illinois

CORPORATE RESPONSIBILITY

Corporate responsibility continues to mean many things to us. It is the fair and equitable treatment of all our stakeholders including associates, shareholders, customers and suppliers. It is our sense of concern for the well-being of the public at large and for our environment. And it is the time and money that we contribute toward strengthening the communities where we do business.

In 1991, The Sears-Roebuck Foundation and Sears business groups continued to work toward strengthening communities across the country through associate involvement and strategic grants totaling more than $19.8 million in cash contributions. These contributions included funding to support education, the arts and civic affairs and to address human services needs. In addition, Sears Merchandise Group donated a former retail store building valued at more than $7.5 million to Dade County, Florida to be used by the Performing Arts Center Trust as the Miami Arts Center.

Education was the cornerstone of The Sears-Roebuck Foundation programs. The Foundation provided more than $1.0 million to 700 private colleges and universities through its Teaching Excellence and Campus Leadership Awards program and through grants to the United Negro College Fund and the Hispanic Association of Colleges and Universities.

United Way continued to be a primary vehicle of Sears business groups' collective support of communities across the country. The corporation contributed $7.4 million and associates pledged more than $13.9 million to local United Ways.

In 1991, Sears business groups provided special support for U.S. military personnel participating in Operation Desert Shield/Desert Storm and their families. Sears Merchandise Group led the way, with Sears stores providing public collection points for the USO funds established to help ease the financial difficulties of military families. And Prodigy, the IBM/Sears joint venture, offered a free program allowing members to send letters to Operation Desert Shield/Desert Storm personnel. Additionally, the Merchandise Group contributed more than $6.9 million to local programs including the United Way.

Nationwide in 1991, The Allstate Foundation provided support totaling $6.0 million to the United Way and other human services organizations; to loss prevention programs addressing health issues and automotive safety; and to community revitalization programs. Two of its 1991 grant recipients were The National Center for Neighborhood Enterprise, a national organization that helps community leaders attack problems facing residents of low income neighborhoods; and the occupant safety and anti-drunk driving campaign of the General Federation of Women's Clubs.

In addition to its continuing participation in United Way campaigns, Dean Witter funded a wide range of national and local community-support programs. In 1991, Discover Card Services, Inc. introduced its Discover Card Tribute to Young America program to recognize youth through financial education and scholarship programs. In addition, Discover Card continues to be a major sponsor of the Make-A-Wish Foundation, which grants the wishes of children with life-threatening illnesses. Discover Card helped the agency raise more than $992,000 in 1991 through a special Christmas promotion with toy merchants across the United States, the Discover Card Stars on Ice™ revue and Cardmember Cashback Bonus donations.

Coldwell Banker Residential continues to participate as a national co-sponsor of the U.S. Marine Corps annual Toys for Tots campaign with sales associates nationwide gathering gifts for needy children. Homart shopping centers' annual Spirit of Giving program raised over $262,000 for local charities through the sale of shopping bags and gift wrapping services. In addition, generous shoppers donated over $826,000 in gifts through "Giving Trees", which contained the wish lists of underprivileged children.

Through these and other initiatives, Sears, Roebuck and Co. will continue its commitment to upholding its reputation as a responsible corporate citizen. Additional information about our community involvement is provided in the Sears, Roebuck and Co. Corporate Responsibility Report. To obtain a copy, refer to the back cover of this annual report.

Sears has a policy designed to minimize the possibility of inadvertent importation into the United States by Sears of goods made by forced or convict labor in mainland China. Any shareholder interested in receiving a copy of the policy may write to the Secretary, Sears, Roebuck and Co., Sears Tower, 68th Floor, Chicago, Illinois 60684.

Sears, Roebuck and Co. Principal Domestic Business Groups Percentages of Female and Minority Employees in each Job Category defined by the Equal Employment Opportunity Commission

Job Categories	Female	Black	Hispanic	Asian/ Pacific Islander	American Indian/ Alaskan Native	Total Employees in thousands
Officials and Managers	37.8	8.1	4.1	1.0	0.4	37.7
Professionals	47.9	12.5	5.1	3.4	0.3	18.8
Technicians	50.7	12.3	6.4	3.9	0.5	5.7
Salesworkers	52.2	14.4	6.9	1.7	0.7	159.3
Office and Clerical	85.3	16.3	6.7	2.3	0.6	98.9
Craftworkers	4.4	10.8	7.6	1.6	0.6	35.0
Operatives	5.2	18.4	10.3	1.5	0.9	11.0
Laborers	31.0	22.9	10.9	1.2	0.6	41.0
Service Workers	22.5	19.1	9.5	1.7	0.6	6.1
Total, December 1991	50.7	14.9	7.1	1.8	0.6	413.5

Sears Merchandise Group Purchases

Goods and Services	1991
Minority owned*	$111,979,204
Woman-owned**	$152,587,562
Total	$264,566,766

*Includes men and women
**Non-minority women only.

Sears, Roebuck and Co., a New York corporation, is headquartered in Sears Tower, Chicago, Illinois.

CORPORATE INFORMATION

Annual Meeting
The Annual Meeting of Shareholders of Sears, Roebuck and Co. will be held in the Phoenix Ballroom at the JW Marriott Hotel at Lenox, 3300 Lenox Road, Atlanta, Georgia, on Thursday, May 14, 1992, at 10:00 a.m., Atlanta time.

Investor Information
Analysts and investment professionals should direct inquiries to:

Corporate Investor Relations
Sears, Roebuck and Co.
Sears Tower–Department 962
Chicago, IL 60684
312/875-1468

General Information
The following are available upon request without charge:

- a copy of the Form 10-K Annual Report filed with the Securities and Exchange Commission for the year ended December 31, 1991;
- an audio cassette tape of the company's 1991 Annual Report for use by the visually impaired;
- a copy of the Sears, Roebuck and Co. Corporate Responsibility Report which includes The Sears–Roebuck Foundation 1991 Report;
- interim financial information.

Requests for the above information should be addressed to:

Public Affairs
Sears, Roebuck and Co.
Sears Tower
Chicago, IL 60684
312/875-9785

Transfer Agent/ Shareholder Records
For information or assistance regarding individual stock records, transactions, dividend reinvestment accounts, dividend checks or stock certificates, contact:

First Chicago Trust Company of New York
P.O. Box 3931
Church Street Station
New York, NY 10008-3931
212/791-3357

Registrar
First Chicago Trust Company of New York

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Exhibit 22

Subsidiaries

The significant subsidiaries of Sears, Roebuck and Co., the names under which such subsidiaries do business, and the states or countries in which each was organized, were as follows at December 31, 1991:

Name	Place of Organization
Consolidated Subsidiaries:	
Allstate Insurance Company	Illinois
Allstate Life Insurance Company	Illinois
PMI Mortgage Insurance Co.	Arizona
Coldwell, Banker & Company	California
Sears Mortgage Corporation	Ohio
Coldwell Banker Real Estate Group, Inc.	Delaware
Homart Holding Company of Delaware, Inc.	Delaware
Homart Development Co.	Delaware
Dean Witter Financial Services Group Inc.	Delaware
Dean Witter Reynolds Inc.	Delaware
Dean Witter Reynolds International Incorporated	Delaware
Discover Credit Corp.	Delaware
Sears Canada Inc.	Canada
Sears Acceptance Company Inc.	Canada
Sears Roebuck de Mexico, S.A. de C.V.	Mexico
Sears Consumer Financial Corporation	Delaware
Greenwood Trust Company	Delaware
Discover Card Services, Inc.	Delaware
SCFC Receivables Financing Corporation	Delaware
SCFC Receivables Corp.	Delaware
Discover Receivables Financing Corporation	Delaware
Discover Receivables Financing Group, Inc.	Delaware
Sears Consumer Financial Corporation of Delaware	Delaware
SPS Transaction Services, Inc.	Delaware
Sears Overseas Finance N.V.	Netherlands Antilles
Sears Receivables Financing Group, Inc.	Delaware
Sears Roebuck Acceptance Corp.	Delaware
Sears Savings Bank	California
Western Auto Supply Company	Delaware
345 other companies	Various

The Company owns 20% to 50% of the outstanding voting securities of 67 companies which are accounted for on an equity method.

The Company has investments in a number of other corporations representing substantial percentages (but not more than 20 percent) of their outstanding capital stock. The Company disclaims control of any such companies.

Exhibit 29.

57 57
Form 2 Form 2

CONSOLIDATED ANNUAL STATEMENT FOR THE YEAR 1991 OF THE ALLSTATE INSURANCE COMPANY AND ITS AFFILIATED FIRE AND CASUALTY INSURERS
(Name)

SCHEDULE P - ANALYSIS OF LOSSES AND LOSS EXPENSES

Notes to Schedule P

(1) The Parts of Schedule P:
- Part 1 — detailed information on losses and loss expenses.
- Part 2 — history of incurred losses and allocated expenses.
- Part 3 — history of loss and allocated expense payments.
- Part 4 — Loss Portfolio Transfers.
- Part 5 — schedule for claims-made policies.
- Part 6 — history of bulk and incurred-but-not reported reserves.
- Schedule P Interrogatories

(2) Lines of business A through M and R are groupings of the lines of business used on Page 14, the state page.

(3) Reinsurance A, B, C, and D (Lines N to Q) are:
- Reinsurance A = nonproportional property (1988 and subsequent)
- Reinsurance B = nonproportional liability (1988 and subsequent)
- Reinsurance C = financial lines (1988 and subsequent)
- Reinsurance D = old Schedule O line 30 (1987 and prior)

(4) The instructions to Schedule P contains directions necessary for filling out Schedule P.

SCHEDULE P - PART 1 - SUMMARY

(000 omitted)

1 Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned: 2 Direct and Assumed	3 Ceded	4 Net (2 − 3)	Loss and Loss Expense Payments — Loss Payments: 5 Direct and Assumed	6 Ceded	Allocated Loss Expense Payments: 7 Direct and Assumed	8 Ceded	9 Salvage and Subrogation Received	10 Unallocated Loss Expense Payments	11 Total Net Paid (5 − 6 + 7 − 8 + 10)	12 Number of Claims Reported — Direct and Assumed
1. Prior	X X X X	X X X X	X X X X	136,626	37,140	41,814	26,704	2,377	5,583	120,236	X X X X
2. 1982	6,344,115	426,668	5,737,457	4,382,233	459,827	170,722	22,280	206,492	458,808	4,600,085	X X X X
3. 1983	6,815,637	665,666	6,142,181	5,038,887	698,204	206,848	20,348	246,674	498,300	5,008,223	X X X X
4. 1984	7,231,567	580,366	6,643,213	5,380,928	526,776	218,170	10,177	285,904	512,896	6,408,482	X X X X
5. 1985	7,929,956	646,407	7,284,549	6,708,638	436,911	220,868	766	319,896	540,566	6,046,289	X X X X
6. 1986	9,230,623	557,087	8,682,536	6,260,880	463,826	240,118	6,993	349,191	614,624	6,644,772	X X X X
7. 1987	10,958,765	680,327	10,278,428	7,146,381	527,733	266,620	3,780	409,187	703,122	7,572,440	X X X X
8. 1988	12,461,118	807,746	11,653,372	8,136,682	690,862	248,697	3,830	479,834	884,153	8,494,640	X X X X
9. 1989	13,099,229	419,014	12,680,216	8,750,831	439,462	223,961	2,512	519,687	840,887	9,460,685	X X X X
10. 1990	14,084,424	327,678	13,756,748	8,666,938	123,640	127,677	706	438,784	834,384	8,980,822	X X X X
11. 1991	14,991,800	349,061	14,642,659	5,886,924	65,667	44,308	509	302,922	709,390	6,667,371	X X X X
12. Totals	X X X X	X X X X	X X X X	61,768,643	4,434,418	1,980,002	96,888	3,610,214	6,570,822	68,790,804	X X X X

Note: For "prior," report amounts paid or received in current year only.
Report cumulative amounts paid or received for specific years. Report loss payments net of salvage and subrogation received.

Years in Which Premiums Were Earned and Losses Were Incurred	Losses Unpaid — Case Basis: 13 Direct and Assumed	14 Ceded	Bulk + IBNR: 15 Direct and Assumed	16 Ceded	Allocated Loss Expenses Unpaid — Case Basis: 17 Direct and Assumed	18 Ceded	Bulk + IBNR: 19 Direct and Assumed	20 Ceded	21 Unallocated Loss Expenses Unpaid	22 Total Net Losses and Expenses Unpaid	23 Number of Claims Outstanding — Direct and Assumed
1. Prior	666,951	213,567	459,983	174,398	89,328	33,066	99,861	61,470	30,819	676,432	X X X X
2. 1982	100,617	51,808	43,954	33,161	10,612	2,408	8,797	4,672	1,666	93,487	X X X X
3. 1983	106,792	42,730	37,758	9,158	12,466	3,399	10,587	3,028	1,636	132,904	X X X X
4. 1984	82,960	20,457	55,208	4,300	13,433	2,108	12,321	1,041	1,926	137,914	X X X X
5. 1985	118,767	24,686	31,838	2,011	20,106	1,646	3,612	108	3,392	146,287	X X X X
6. 1986	182,080	14,895	41,321	1,592	31,882	4,587	4,896	83	6,667	225,748	X X X X
7. 1987	324,610	29,612	75,797	2,610	55,833	3,328	6,793	121	13,086	446,227	X X X X
8. 1988	546,796	28,062	130,186	4,911	84,381	4,310	15,076	386	25,839	772,857	X X X X
9. 1989	906,072	47,433	200,423	5,908	158,018	6,643	22,867	397	51,316	1,288,283	X X X X
10. 1990	1,768,663	36,445	446,818	11,280	244,821	4,977	46,766	756	102,136	2,672,434	X X X X
11. 1991	3,609,138	61,895	1,231,413	43,478	324,993	5,180	102,749	1,322	324,077	5,930,386	X X X X
12. Totals	8,812,790	587,192	2,812,682	272,904	1,068,438	62,248	336,868	73,347	542,399	12,280,091	X X X X

Years in Which Premiums Were Earned and Losses Were Incurred	Total Losses and Loss Expenses Incurred: 24 Direct and Assumed	25 Ceded	26 Net *	Loss and Loss Expense Percentage (Incurred/Premiums Earned): 27 Direct and Assumed	28 Ceded	29 Net	Discount for Time Value of Money: 30 Loss	31 Loss Expense	32 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount: 33 Losses Unpaid	34 Loss Expenses Unpaid
1. Prior	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X	767,973	107,480
2. 1982	5,157,682	564,130	4,593,522	81.0	90.0	80.1				79,609	13,686
3. 1983	5,901,509	783,362	5,118,147	86.6	119.9	83.1				92,667	20,287
4. 1984	6,396,589	573,261	5,823,348	85.7	97.4	84.6				133,882	24,314
5. 1985	6,877,864	485,338	6,392,526	84.2	75.2	88.0				120,899	25,358
6. 1986	7,376,816	506,496	6,870,320	79.8	90.7	79.1				187,080	38,668
7. 1987	8,505,561	576,874	8,918,687	78.5	84.8	78.0				371,795	74,442
8. 1988	10,010,886	744,278	9,266,577	80.3	92.1	79.6				641,208	130,889
9. 1989	11,289,123	472,843	10,816,278	86.2	112.8	85.3				1,141,186	228,058
10. 1990	11,883,446	376,730	11,476,936	82.7	53.9	83.4				2,184,753	387,661
11. 1991	12,276,908	198,161	12,077,757	81.9	56.6	82.6				4,766,866	745,331
12. Totals	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X	10,466,706	1,733,306

*Net = (24 − 25) = (11 + 22)

CONSOLIDATED ANNUAL STATEMENT FOR THE YEAR 1991 OF THE ALLSTATE INSURANCE COMPANY AND ITS AFFILIATED FIRE AND CASUALTY INSURERS

(Name)

SCHEDULE P - PART 2 - SUMMARY

1 Years in Which Losses Were Incurred	Incurred Losses and Allocated Expenses Reported At Year End (000 omitted)										Development**	
	2 1982	3 1983	4 1984	5 1985	6 1986	7 1987	8 1988	9 1989	10 1990	11 1991	12 One Year	13 Two Year
1. Prior	2,425,499 *	2,115,604	2,274,038	2,351,354	2,495,984	2,695,655	2,673,266	2,985,285	3,101,617	3,311,809	209,692	326,224
2. 1982	4,110,321	4,116,921	4,096,850	4,063,030	4,081,393	4,116,607	4,121,138	4,110,176	4,117,095	4,133,366	16,271	23,192
3. 1983	X X X X	4,595,973	4,682,061	4,669,320	4,573,679	4,585,261	4,600,876	4,599,078	4,611,275	4,618,179	6,904	19,103
4. 1984	X X X X	X X X X	5,091,061	5,044,844	5,065,822	5,076,280	5,072,620	5,074,602	5,082,224	5,109,138	26,914	34,536
5. 1985	X X X X	X X X X	X X X X	5,668,362	5,658,633	5,663,944	5,628,945	5,613,506	5,601,628	5,623,579	21,951	10,073
6. 1986	X X X X	X X X X	X X X X	X X X X	6,365,043	6,347,388	6,294,013	6,260,327	6,247,311	6,249,339	2,028	(10,988)
7. 1987	X X X X	X X X X	X X X X	X X X X	X X X X	7,390,371	7,354,930	7,302,281	7,295,237	7,304,480	9,243	2,199
8. 1988	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	8,615,873	8,484,075	8,463,483	8,436,985	(26,498)	(49,490)
9. 1989	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	9,374,980	9,923,647	9,884,455	(39,092)	509,495
10. 1990	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	10,634,462	10,640,454	(93,804)	X X X X
11. 1991	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	11,060,282	X X X X	X X X X
12. Totals											133,207	464,344

*Reported reserves only. Subsequent development relates only to subsequent payments and reserves.

**Current year less first or second prior year, showing (redundant) or adverse.

SCHEDULE P - PART 3 - SUMMARY

1 Years in Which Losses Were Incurred	Cumulative Paid Losses and Allocated Expenses At Year End (000 omitted)										12 Number of Claims Closed With Loss Payment	13 Number of Claims Closed Without Loss Payment
	2 1982	3 1983	4 1984	5 1985	6 1986	7 1987	8 1988	9 1989	10 1990	11 1991		
1. Prior	000	758,228	1,214,926	1,536,389	1,750,126	1,934,833	2,072,427	2,212,181	2,312,254	2,448,896	X X X X	X X X X
2. 1982	2,324,285	3,150,587	3,530,233	3,727,283	3,847,968	3,920,006	3,976,829	4,008,509	4,031,659	4,041,826	X X X X	X X X X
3. 1983	X X X X	2,492,084	3,534,458	3,916,046	4,153,032	4,261,030	4,379,227	4,436,126	4,475,213	4,504,893	X X X X	X X X X
4. 1984	X X X X	X X X X	2,784,800	3,897,950	4,162,548	4,410,392	4,785,435	4,669,173	4,931,327	4,973,146	X X X X	X X X X
5. 1985	X X X X	X X X X	X X X X	3,104,604	4,170,336	4,466,396	5,156,521	5,321,685	5,419,601	5,480,714	X X X X	X X X X
6. 1986	X X X X	X X X X	X X X X	X X X X	3,403,547	4,843,638	5,403,363	5,718,039	5,910,119	6,030,148	X X X X	X X X X
7. 1987	X X X X	X X X X	X X X X	X X X X	X X X X	3,904,185	5,587,631	6,233,073	6,626,613	6,871,318	X X X X	X X X X
8. 1988	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	4,616,194	6,476,824	7,232,128	7,690,307	X X X X	X X X X
9. 1989	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	5,347,019	7,710,177	8,549,818	X X X X	X X X X
10. 1990	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	6,678,957	8,070,358	X X X X	X X X X
11. 1991	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	6,843,973	X X X X	X X X X

Note: Net of salvage and subrogation received.

SCHEDULE P - PART 6 - SUMMARY

1 Years in Which Losses Were Incurred	Bulk and Incurred But Not Reported Reserves on Losses and Allocated Expenses at Year End (000 omitted)									
	2 1982	3 1983	4 1984	5 1985	6 1986	7 1987	8 1988	9 1989	10 1990	11 1991
1. Prior	509,127	316,215	209,437	183,844	192,010	254,793	306,956	292,454	284,848	353,970
2. 1982	413,331	133,123	72,648	41,935	64,188	76,307	41,445	35,832	34,447	34,920
3. 1983	X X X X	462,695	140,376	77,099	67,681	71,821	57,860	48,337	45,847	36,167
4. 1984	X X X X	X X X X	493,124	140,216	105,260	68,287	45,952	50,481	43,630	42,188
5. 1985	X X X X	X X X X	X X X X	650,671	397,957	120,960	72,787	60,823	35,098	33,327
6. 1986	X X X X	X X X X	X X X X	X X X X	498,454	264,936	144,714	83,893	50,209	44,645
7. 1987	X X X X	X X X X	X X X X	X X X X	X X X X	844,627	331,168	177,062	104,606	81,949
8. 1988	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	1,007,647	368,846	226,078	139,954
9. 1989	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	1,007,019	432,278	224,926
10. 1990	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	1,226,732	801,636
11. 1991	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	1,289,376

CONSOLIDATED ANNUAL STATEMENT FOR THE YEAR 1991 OF THE ALLSTATE INSURANCE COMPANY AND ITS AFFILIATED FIRE AND CASUALTY INSURERS
(Name)

SCHEDULE P - PART 1A - HOMEOWNERS/FARMOWNERS

(000 omitted)

1 Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned: 2 Direct and Assumed	3 Ceded	4 Net (2 − 3)	Loss and Loss Expense Payments: Loss Payments: 5 Direct and Assumed	6 Ceded	Allocated Loss Expense Payments: 7 Direct and Assumed	8 Ceded	9 Salvage and Subrogation Received	10 Unallocated Loss Expense Payments	11 Total Net Paid (5 − 6 + 7 − 8 + 10)	12 Number of Claims Reported — Direct and Assumed
1. Prior	XXXX	XXXX	XXXX	1,794		945		106	266	3,008	XXXX
2. 1982	1,126,361	8,784	1,117,578	724,107	16	28,340	7	7,664	75,821	816,284	836,671
3. 1983	1,187,412	9,276	1,178,134	806,432	33,562	33,759	27	11,534	86,606	891,318	884,295
4. 1984	1,238,312	10,314	1,227,998	787,094	(2,950)	35,404	6	9,594	83,872	909,314	835,980
5. 1985	1,322,614	12,807	1,309,707	936,890	7,269	37,056		10,313	104,324	1,071,043	928,836
6. 1986	1,493,834	17,797	1,476,037	897,924	869	37,385	85	8,706	113,286	1,047,441	838,832
7. 1987	1,729,453	11,403	1,718,060	1,033,868	251	36,626	28	9,539	142,634	1,212,640	930,453
8. 1988	1,931,733	13,766	1,917,978	1,206,021	176	36,830	32	10,602	187,776	1,432,129	998,879
9. 1989	2,099,957	18,576	2,081,422	1,416,885	98,069	34,204	62	9,818	391,060	1,744,018	1,237,658
10. 1990	2,265,751	18,833	2,246,958	1,494,606		23,179		8,272	164,622	1,682,406	1,132,647
11. 1991	2,442,936	20,396	2,422,540	1,352,533		13,064		3,363	140,216	1,506,813	1,159,875
12. Totals	XXXX	XXXX	XXXX	10,852,345	137,245	311,231	237	89,937	1,290,477	12,336,411	XXXX

Note: For "prior," report amounts paid or received in current year only.
Report cumulative amounts paid or received for specific years. Report loss payments net of salvage and subrogation received.

Years in Which Premiums Were Earned and Losses Were Incurred	Losses Unpaid: Case Basis: 13 Direct and Assumed	14 Ceded	Bulk + IBNR: 15 Direct and Assumed	16 Ceded	Allocated Loss Expenses Unpaid: Case Basis: 17 Direct and Assumed	18 Ceded	Bulk + IBNR: 19 Direct and Assumed	20 Ceded	21 Unallocated Loss Expenses Unpaid	22 Total Net Losses and Expenses Unpaid	23 Number of Claims Outstanding — Direct and Assumed
1. Prior	1,748				312					2,060	308
2. 1982	702				107				75	884	81
3. 1983	1,630	11	3		272				75	1,969	92
4. 1984	2,095	21	3,216	4	512		166		302	7,064	204
5. 1985	4,465	63	5,345	9	1,170	1	274	1	411	13,823	319
6. 1986	11,462	109	7,132	9	2,279	2	367	1	1,072	22,211	549
7. 1987	19,346	17	16,524	36	3,791	1	853	3	1,789	42,254	995
8. 1988	37,364	4	17,043	55	7,496		883	4	3,197	65,940	1,623
9. 1989	67,749	224	37,631	67	11,278	3	5,923	6	8,484	133,644	3,230
10. 1990	105,688		70,233	148	19,324		3,691	10	10,173	208,855	6,867
11. 1991	348,669	29,317	208,736	21,519	28,816	510	10,407	16	64,732	600,890	65,340
12. Totals	593,878	29,656	365,703	21,849	76,357	517	18,564	43	77,486	1,078,728	88,494

Years in Which Premiums Were Earned and Losses Were Incurred	Total Losses and Loss Expenses Incurred: 24 Direct and Assumed	25 Ceded	26 Net *	Loss and Loss Expense Percentage (Incurred/Premiums Earned): 27 Direct and Assumed	28 Ceded	29 Net	Discount for Time Value of Money: 30 Loss	31 Loss Expense	32 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount: 33 Losses Unpaid	34 Loss Expenses Unpaid
1. Prior	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX			XXXX	1,748	312
2. 1982	816,192	22	816,170	72.8	0.3	73.0				702	382
3. 1983	926,777	33,690	893,087	78.1	362.3	75.8				1,622	347
4. 1984	913,483	(2,917)	916,376	73.8	(28.3)	74.6				6,064	980
5. 1985	1,092,197	7,333	1,084,864	82.6	57.2	82.8				11,768	2,056
6. 1986	1,070,727	1,075	1,069,652	71.7	6.0	72.5				18,496	3,716
7. 1987	1,255,234	338	1,254,896	72.6	3.0	73.0				35,887	6,399
8. 1988	1,494,332	263	1,494,069	77.6	1.9	78.1				54,346	11,572
9. 1989	1,950,806	98,420	1,856,686	93.2	521.9	89.3				94,889	18,679
10. 1990	1,891,459	158	1,891,481	83.6	0.8	84.2				175,773	33,082
11. 1991	2,157,173	51,162	2,106,011	88.3	250.8	86.9				506,669	92,829
12. Totals	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX			XXXX	907,876	170,852

*Net = (24 − 25) = (11 + 22)

CONSOLIDATED ANNUAL STATEMENT FOR THE YEAR 1991 OF THE ALLSTATE INSURANCE COMPANY AND ITS AFFILIATED FIRE AND CASUALTY INSURERS
(Name)

SCHEDULE P - PART 1B - PRIVATE PASSENGER AUTO LIABILITY/MEDICAL

(000 omitted)

1 Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned: 2 Direct and Assumed	3 Ceded	4 Net (2 − 3)	Loss and Loss Expense Payments — Loss Payments: 5 Direct and Assumed	6 Ceded	Allocated Loss Expense Payments: 7 Direct and Assumed	8 Ceded	9 Salvage and Subrogation Received	10 Unallocated Loss Expense Payments	11 Total Net Paid (5 − 6 + 7 − 8 + 10)	12 Number of Claims Reported — Direct and Assumed
1. Prior	X X X X	X X X X	X X X X	32,295	4,748	2,844	77	227	1,102	27,394	X X X X
2. 1982	2,465,320	64,588	2,400,732	1,702,007	60,809	83,237	1,112	21,341	227,805	1,951,432	1,590,897
3. 1983	2,664,958	74,275	2,590,723	1,919,915	62,817	94,670	1,179	24,964	242,915	2,193,104	1,676,084
4. 1984	2,837,642	80,911	2,756,631	2,109,886	68,624	102,357	1,013	30,280	251,800	2,393,806	1,736,094
5. 1985	3,078,918	82,541	2,995,377	2,361,465	81,854	113,774	1,138	34,131	265,204	2,657,457	1,814,946
6. 1986	3,637,467	100,066	3,537,581	2,730,152	91,867	129,013	1,588	37,514	291,989	3,066,677	1,913,654
7. 1987	4,282,267	149,422	4,132,845	3,101,809	112,772	141,821	2,143	44,452	323,301	3,451,716	2,052,630
8. 1988	4,891,080	179,747	4,711,333	3,432,880	112,224	138,657	2,084	52,035	360,124	3,797,351	2,226,474
9. 1989	5,523,020	187,495	6,335,525	3,652,781	106,898	120,836	846	53,248	395,211	4,061,064	2,370,345
10. 1990	6,072,606	125,102	5,947,504	3,300,031	62,892	66,454	85	45,844	377,309	3,680,817	2,279,115
11. 1991	6,503,792	149,595	6,354,197	3,794,726	30,101	35,073		24,338	251,845	2,073,843	2,100,992
12. Totals	X X X X	X X X X	X X X X	26,336,947	821,066	1,008,460	11,269	367,954	3,028,013	29,341,485	X X X X

Note: For "prior," report amounts paid or received in current year only.
Report cumulative amounts paid or received for specific years. Report loss payments net of salvage and subrogation received.

Years in Which Premiums Were Earned and Losses Were Incurred	Losses Unpaid — Case Basis: 13 Direct and Assumed	14 Ceded	Bulk + IBNR: 15 Direct and Assumed	16 Ceded	Allocated Loss Expenses Unpaid — Case Basis: 17 Direct and Assumed	18 Ceded	Bulk + IBNR: 19 Direct and Assumed	20 Ceded	21 Unallocated Loss Expenses Unpaid	22 Total Net Losses and Expenses Unpaid	23 Number of Claims Outstanding — Direct and Assumed
1. Prior	152,937	82,972	1,500	147	11,830	67	143	18		83,146	868
2. 1982	42,108	27,419	403	48	1,434	39	37	5	315	10,348	325
3. 1983	43,163	20,124	711	45	3,082	55	65	6	276	27,798	477
4. 1984	29,188	13,371	5,184	184	3,644	609	390	14	423	24,971	835
5. 1985	42,965	12,730	2,225	64	6,863	1,008	248	9	1,442	40,167	1,364
6. 1986	75,227	10,245	4,928	90	12,882	1,000	368	9	3,351	85,012	3,054
7. 1987	158,677	21,152	10,250	172	24,044	2,067	798	16	7,367	179,459	6,217
8. 1988	337,059	26,092	35,661	644	53,067	3,210	2,147	54	15,809	388,123	13,844
9. 1989	662,661	32,845	68,043	1,436	100,738	4,056	4,966	113	32,736	831,619	29,941
10. 1990	1,259,527	28,271	195,617	4,735	171,956	3,139	17,049	348	70,702	1,710,397	64,701
11. 1991	2,587,620	35,176	614,178	12,828	242,623	3,356	45,631	841	201,342	3,639,234	258,634
12. Totals	5,411,102	330,297	934,300	20,550	636,966	38,606	73,782	1,435	331,393	7,036,576	382,244

Years in Which Premiums Were Earned and Losses Were Incurred	Total Losses and Loss Expenses Incurred: 24 Direct and Assumed	25 Ceded	26 Net *	Loss and Loss Expense Percentage (Incurred/Premiums Earned): 27 Direct and Assumed	28 Ceded	29 Net	Discount for Time Value of Money: 30 Loss	31 Loss Expense	32 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount: 33 Losses Unpaid	34 Loss Expenses Unpaid
1. Prior	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X	71,258	11,850
2. 1982	2,059,232	61,332	1,969,920	83.5	138.3	82.1				14,884	3,544
3. 1983	2,306,147	64,248	2,220,899	86.6	113.5	85.7				21,655	4,140
4. 1984	2,502,672	83,896	2,418,727	88.2	103.7	87.7				29,817	4,364
5. 1985	2,754,457	96,623	2,657,834	90.6	120.2	90.1				32,376	7,701
6. 1986	3,247,908	104,819	3,143,089	89.3	104.7	88.8				49,820	19,892
7. 1987	3,769,497	138,322	3,631,176	88.0	92.6	87.9				147,609	31,856
8. 1988	4,349,786	164,312	4,185,474	88.9	91.4	88.6				320,984	67,135
9. 1989	5,038,249	145,454	4,892,995	91.2	77.7	91.7				697,283	134,248
10. 1990	5,495,684	95,470	5,399,214	90.5	79.6	90.6				1,462,138	256,259
11. 1991	5,793,058	82,299	5,710,769	89.1	55.0	89.9				3,363,797	485,419
12. Totals	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X	6,014,655	1,022,020

*Net = (24 − 25) = (11 + 22)

CONSOLIDATED ANNUAL STATEMENT FOR THE YEAR 1991 OF THE ALLSTATE INSURANCE COMPANY AND ITS AFFILIATED FIRE AND CASUALTY INSURERS
(Name)

SCHEDULE P - PART 1C - COMMERCIAL AUTO/TRUCK LIABILITY/MEDICAL

(000 omitted)

1	Premiums Earned			Loss and Loss Expense Payments							12
				Loss Payments		Allocated Loss Expense Payments		9	10	11	
Years in Which Premiums Were Earned and Losses Were Incurred	2 Direct and Assumed	3 Ceded	4 Net (2 − 3)	5 Direct and Assumed	6 Ceded	7 Direct and Assumed	8 Ceded	Salvage and Subrogation Received	Unallocated Loss Expense Payments	Total Net Paid (5 − 6 + 7 − 8 + 10)	Number of Claims Reported — Direct and Assumed
1. Prior	XXXX	XXXX	XXXX	2,370	856	186	16	2	198	1,483	XXXX
2. 1982	76,220	10,826	65,394	59,024	15,971	4,007	26	362	6,776	53,809	22,142
3. 1983	76,859	11,684	65,175	72,378	11,226	5,674	(151)	395	7,205	73,981	27,723
4. 1984	96,401	13,125	83,276	114,378	14,695	10,786	374	863	10,697	118,692	41,997
5. 1985	139,413	7,924	131,489	125,425	10,390	11,467	(201)	537	12,017	138,730	51,090
6. 1986	223,653	15,366	208,287	133,481	8,392	11,353	374	709	11,270	149,094	53,622
7. 1987	268,205	12,589	255,616	147,602	6,710	11,828	323	385	12,789	165,378	66,661
8. 1988	278,157	10,491	267,666	157,091	7,256	11,416	308	657	11,092	173,975	57,956
9. 1989	284,768	10,242	274,526	126,432	3,491	7,559	68	336	12,922	143,354	56,782
10. 1990	271,848	3,687	268,161	94,047	1,224	4,326	1	370	11,319	110,267	82,107
11. 1991	280,859	4,038	276,821	40,165	670	980		410	10,584	51,039	41,788
12. Totals	XXXX	XXXX	XXXX	1,072,261	82,877	79,182	1,134	5,256	112,748	1,180,206	XXXX

Note: For "prior," report amounts paid or received in current year only.
Report cumulative amounts paid or received for specific years. Report loss payments net of salvage and subrogation received.

	Losses Unpaid				Allocated Loss Expenses Unpaid				21	22	23
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR				
Years in Which Premiums Were Earned and Losses Were Incurred	13 Direct and Assumed	14 Ceded	15 Direct and Assumed	16 Ceded	17 Direct and Assumed	18 Ceded	19 Direct and Assumed	20 Ceded	Unallocated Loss Expenses Unpaid	Total Net Losses and Expenses Unpaid	Number of Claims Outstanding — Direct and Assumed
1. Prior	8,020	338	500	62	696	16	48	4	3	8,845	85
2. 1982	1,230	320	327	16	116	7	32	2		1,332	21
3. 1983	2,148	349	827	24	228	12	22	3	11	2,224	39
4. 1984	2,659	426	347	26	388	55	39	2	41	2,965	44
5. 1985	4,095	246	317	23	957	23	69	2	126	5,360	99
6. 1986	7,848	499	565	17	1,224	54	56	2	381	9,320	201
7. 1987	30,306	1,720	1,459	22	4,643	264	106	2	1,031	35,483	479
8. 1988	44,479	907	3,283	70	6,087	160	178	6	2,032	54,898	1,050
9. 1989	58,037	1,493	7,221	130	6,060	231	449	5	3,767	75,671	1,843
10. 1990	100,586	3,207	39,661	445	12,299	284	1,504	24	6,026	156,111	3,584
11. 1991	98,319	1,850	67,847	1,362	33,578	154	5,134	81	10,685	180,216	7,589
12. Totals	357,745	11,373	91,734	2,201	46,148	1,252	7,613	143	24,082	512,393	15,054

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred/Premiums Earned)			Discount for Time Value of Money		32	Net Balance Sheet Reserves After Discount	
Years in Which Premiums Were Earned and Losses Were Incurred	24 Direct and Assumed	25 Ceded	26 Net *	27 Direct and Assumed	28 Ceded	29 Net	30 Loss	31 Loss Expense	Inter-Company Pooling Participation Percentage	33 Losses Unpaid	34 Loss Expenses Unpaid
1. Prior	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX			XXXX	8,320	725
2. 1982	71,284	16,143	55,141	93.4	149.1	84.3				1,213	139
3. 1983	87,662	11,457	76,206	114.1	98.1	116.9				1,984	240
4. 1984	139,107	17,450	121,657	144.3	133.0	146.1				2,654	411
5. 1985	154,093	10,013	144,080	110.6	126.3	109.6				4,223	1,127
6. 1986	167,956	9,530	158,430	76.1	62.1	76.1				7,716	1,406
7. 1987	209,842	9,041	200,841	78.1	71.8	78.6				30,023	5,440
8. 1988	237,578	8,707	228,871	85.4	63.0	85.5				46,765	8,311
9. 1989	224,447	5,422	219,025	78.8	52.9	79.8				43,636	12,034
10. 1990	251,567	5,389	246,178	92.6	140.7	91.9				114,895	39,614
11. 1991	235,372	4,117	231,255	83.8	102.0	83.8				153,064	27,182
12. Totals	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX			XXXX	435,901	76,492

*Net = (24 − 25) = (11 + 22)

CONSOLIDATED ANNUAL STATEMENT FOR THE YEAR 1991 OF THE ALLSTATE INSURANCE COMPANY AND ITS AFFILIATED FIRE AND CASUALTY INSURERS
(Name)

SCHEDULE P - PART 1D - WORKERS' COMPENSATION

(000 omitted)

1 Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned: 2 Direct and Assumed	3 Ceded	4 Net (2 − 3)	Loss and Loss Expense Payments — Loss Payments: 5 Direct and Assumed	6 Ceded	Allocated Loss Expense Payments: 7 Direct and Assumed	8 Ceded	9 Salvage and Subrogation Received	10 Unallocated Loss Expense Payments	11 Total Net Paid (5 − 6 + 7 − 8 + 10)	12 Number of Claims Reported — Direct and Assumed
1. Prior	XXXX	XXXX	XXXX	6,053	2,013	536	30	398	95	4,641	XXXX
2. 1982	49,246	2,257	47,029	28,493	377	1,409	5	909	4,874	34,394	25,392
3. 1983	76,226	1,497	74,728	56,954	(727)	2,584	(37)	1,654	8,448	68,750	46,849
4. 1984	129,978	2,134	127,844	116,114	(2,984)	6,228	(147)	3,671	8,174	133,644	85,581
5. 1985	176,535	3,441	173,094	140,206	(5,374)	7,614	(171)	3,693	11,663	164,932	83,031
6. 1986	227,799	4,004	223,795	165,293		8,695		4,632	13,812	187,800	87,846
7. 1987	353,214	4,741	348,473	234,999		11,835		4,506	19,170	266,704	123,320
8. 1988	400,899	5,957	394,742	240,340		11,215		2,999	20,171	271,766	134,347
9. 1989	379,603	5,361	374,242	170,911		8,211		1,356	16,410	195,662	105,273
10. 1990	283,563	3,341	280,820	128,809		4,863		427	13,747	147,117	86,309
11. 1991	318,922	4,940	313,982	57,875	110	1,550		81	10,447	68,762	68,174
12. Totals	XXXX	XXXX	XXXX	1,346,107	(6,685)	64,135	(320)	24,187	123,915	1,541,062	XXXX

Note: For "prior," report amounts paid or received in current year only.
Report cumulative amounts paid or received for specific years. Report loss payments net of salvage and subrogation received.

Years in Which Premiums Were Earned and Losses Were Incurred	Losses Unpaid — Case Basis: 13 Direct and Assumed	14 Ceded	Bulk + IBNR: 15 Direct and Assumed	16 Ceded	Allocated Loss Expenses Unpaid — Case Basis: 17 Direct and Assumed	18 Ceded	Bulk + IBNR: 19 Direct and Assumed	20 Ceded	21 Unallocated Loss Expenses Unpaid	22 Total Net Losses and Expenses Unpaid	23 Number of Claims Outstanding — Direct and Assumed
1. Prior	58,218	5,670	17,252	2,149	1,324	148	455	57	390	69,217	670
2. 1982	2,922	440	2,799	349	43	6	74	9	44	5,076	56
3. 1983	7,707	1,242	2,042	257	118	2	54	7	82	8,485	209
4. 1984	13,173	1,247	2,784	214	483	28	134	6	148	14,229	944
5. 1985	21,892	201	4,485	311	515		229	6	355	26,934	826
6. 1986	29,818	174	6,419	241	747	1	440	7	693	37,744	1,239
7. 1987	49,831	320	14,457	750	1,483		874	20	1,228	66,843	2,804
8. 1988	61,240		14,137	8	2,813		1,171		2,821	81,974	4,470
9. 1989	75,874		19,204	150	3,235		1,493	4	4,498	104,062	6,229
10. 1990	112,419		60,380	438	4,049		2,413	12	7,491	185,702	9,093
11. 1991	123,359	271	106,627	456	3,943		6,477	12	14,043	261,902	16,909
12. Totals	552,845	9,767	251,164	5,363	18,733	183	14,234	142	31,661	852,842	43,648

Years in Which Premiums Were Earned and Losses Were Incurred	Total Losses and Loss Expenses Incurred: 24 Direct and Assumed	25 Ceded	26 Net *	Loss and Loss Expense Percentage (Incurred/Premiums Earned): 27 Direct and Assumed	28 Ceded	29 Net	Discount for Time Value of Money: 30 Loss	31 Loss Expense	32 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount: 33 Losses Unpaid	34 Loss Expenses Unpaid
1. Prior	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX			XXXX	67,455	1,766
2. 1982	45,647	1,175	39,472	82.6	52.1	83.9				6,932	146
3. 1983	74,950	735	74,235	98.3	47.6	99.3				8,270	215
4. 1984	147,189	(1,700)	148,889	113.2	(79.7)	116.4				18,684	733
5. 1985	186,613	(5,285)	191,868	106.7	(152.7)	110.8				26,845	1,091
6. 1986	226,051	463	225,588	99.2	11.6	100.8				35,678	1,910
7. 1987	333,877	1,090	332,587	94.6	23.0	95.4				63,118	3,765
8. 1988	353,348	8	353,340	88.2	0.1	89.6				75,349	6,226
9. 1989	299,758	154	299,604	79.0	2.9	80.1				94,830	9,422
10. 1990	333,289	450	332,839	117.6	13.8	118.7				171,341	14,341
11. 1991	322,515	851	321,664	101.1	17.2	102.4				227,281	24,651
12. Totals	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX			XXXX	784,876	64,263

*Net = (24 − 25) = (11 + 22)

CONSOLIDATED ANNUAL STATEMENT FOR THE YEAR 1991 OF THE ALLSTATE INSURANCE COMPANY AND ITS AFFILIATED FIRE AND CASUALTY INSURERS

(Name)

SCHEDULE P - PART 1E - COMMERCIAL MULTIPLE PERIL

(000 omitted)

1 Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned: 2 Direct and Assumed	3 Ceded	4 Net (2 − 3)	Loss and Loss Expense Payments: Loss Payments: 5 Direct and Assumed	6 Ceded	Allocated Loss Expense Payments: 7 Direct and Assumed	8 Ceded	9 Salvage and Subrogation Received	10 Unallocated Loss Expense Payments	11 Total Net Paid (5 − 6 + 7 − 8 + 10)	12 Number of Claims Reported — Direct and Assumed
1. Prior	X X X X	X X X X	X X X X	871	62	1,107		1	6	1,922	X X X X
2. 1982	74,725	7,368	67,357	52,654	4,927	6,067	228	1,634	6,807	59,953	15,821
3. 1983	84,860	7,917	76,943	76,458	15,351	11,252	(118)	4,695	7,435	79,910	23,276
4. 1984	112,420	9,356	103,072	85,842	2,789	12,854	(630)	2,147	9,348	106,207	36,091
5. 1985	167,461	11,910	154,051	115,632	9,190	14,404	(802)	6,111	9,809	131,459	46,967
6. 1986	251,108	20,721	230,387	121,225	3,909	18,038	37	2,818	10,379	145,496	49,358
7. 1987	342,395	25,082	317,314	138,007	6,330	17,859	47	4,771	11,648	161,137	57,740
8. 1988	372,728	27,566	345,162	160,661	6,988	15,924	62	4,082	12,319	181,854	73,391
9. 1989	393,975	29,641	364,334	225,347	22,666	16,722	67	3,776	15,887	235,373	94,368
10. 1990	430,231	30,703	399,528	204,264	31,183	10,713	32	1,963	15,811	218,973	95,967
11. 1991	439,013	23,357	415,656	150,383	4,788	4,466	6	1,050	13,204	163,539	92,829
12. Totals	X X X X	X X X X	X X X X	1,331,344	87,663	130,458	(1,071)	32,047	130,833	1,485,823	X X X X

Note: For "prior," report amounts paid or received in current year only.
Report cumulative amounts paid or received for specific years. Report loss payments net of salvage and subrogation received.

Years in Which Premiums Were Earned and Losses Were Incurred	Losses Unpaid: Case Basis: 13 Direct and Assumed	14 Ceded	Bulk + IBNR: 15 Direct and Assumed	16 Ceded	Allocated Loss Expenses Unpaid: Case Basis: 17 Direct and Assumed	18 Ceded	Bulk + IBNR: 19 Direct and Assumed	20 Ceded	21 Unallocated Loss Expenses Unpaid	22 Total Net Losses and Expenses Unpaid	23 Number of Claims Outstanding — Direct and Assumed
1. Prior	1,863	351			1,236	14			7	2,743	54
2. 1982	673				183				33	847	13
3. 1983	2,207	30	33	2	1,074	1	29	8	84	3,366	61
4. 1984	3,115	180	3,285	5	2,123	229	1,267	3	177	9,552	91
5. 1985	5,740	3,782	2,782	33	3,200	224	992	4	322	9,034	113
6. 1986	9,031		4,157	25	3,813		1,444	2	530	18,934	223
7. 1987	16,159	103	7,297	67	4,640	671	2,420	6	880	32,772	410
8. 1988	27,650	44	10,358	85	4,633	658	3,548	8	1,229	45,837	763
9. 1989	40,352	202	17,735	110	14,690	1,050	5,775	8	1,634	78,658	1,365
10. 1990	51,733	825	32,977	213	18,633	1,290	10,042	15	2,495	135,857	2,493
11. 1991	74,132	2,241	64,296	123	16,863	937	16,639	8	9,244	177,845	9,016
12. Totals	229,781	7,735	142,904	647	77,100	5,076	42,154	59	16,625	495,045	14,620

Years in Which Premiums Were Earned and Losses Were Incurred	Total Losses and Loss Expenses Incurred: 24 Direct and Assumed	25 Ceded	26 Net *	Loss and Loss Expense Percentage (Incurred/Premiums Earned): 27 Direct and Assumed	28 Ceded	29 Net	Discount for Time Value of Money: 30 Loss	31 Loss Expense	32 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount: 33 Losses Unpaid	34 Loss Expenses Unpaid
1. Prior	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X	1,538	1,225
2. 1982	65,942	5,122	60,820	88.2	69.5	90.3				673	194
3. 1983	98,470	15,194	83,276	116.0	191.9	108.2				2,188	1,178
4. 1984	117,647	1,888	115,759	104.6	20.2	112.3				6,219	3,333
5. 1985	152,432	11,939	140,493	90.7	100.3	90.0				4,748	4,286
6. 1986	168,423	3,973	164,450	67.1	19.2	71.4				13,163	5,391
7. 1987	201,130	7,221	193,909	58.7	28.8	61.1				23,488	9,284
8. 1988	235,238	7,867	227,371	63.1	28.4	65.9				32,776	12,742
9. 1989	338,334	24,103	314,231	85.9	80.6	86.3				57,815	21,043
10. 1990	348,048	13,558	334,490	80.9	44.2	83.7				85,852	29,665
11. 1991	345,487	8,103	341,384	79.8	38.7	82.1				136,044	41,601
12. Totals	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X	364,303	130,742

*Net = (24 − 25) = (11 + 22)

SCHEDULE P - PART 1F - MEDICAL MALPRACTICE

(000 omitted)

1	Premiums Earned			Loss and Loss Expense Payments							12
Years in Which Premiums Were Earned and Losses Were Incurred	2 Direct and Assumed	3 Ceded	4 Net (2 − 3)	Loss Payments: 5 Direct and Assumed	Loss Payments: 6 Ceded	Allocated Loss Expense Payments: 7 Direct and Assumed	Allocated Loss Expense Payments: 8 Ceded	9 Salvage and Subrogation Received	10 Unallocated Loss Expense Payments	11 Total Net Paid (5 − 6 + 7 − 8 + 10)	Number of Claims Reported — Direct and Assumed
1. Prior	X X X X	X X X X	X X X X	6,886	183	264	69	184	19	5,937	X X X X
2. 1982	21,420	19,034	2,394	24,443	21,184	5,451	4,267	3	264	6,885	577
3. 1983	27,322	22,013	5,309	44,084	32,610	7,931	5,074		477	14,806	909
4. 1984	17,899	12,795	5,104	14,387	10,814	4,780	2,633		702	6,490	648
5. 1985	3,715	1,383	2,332	2,063	1,486	161	18		465	1,184	53
6. 1986	1,977	150	1,827								11
7. 1987	650	17	633								7
8. 1988	(306)		(306)								
9. 1989	2		2								4
10. 1990											
11. 1991											
12. Totals	X X X X	X X X X	X X X X	94,823	65,971	18,867	12,061	189	1,917	37,276	X X X X

Note: For "prior," report amounts paid or received in current year only.
Report cumulative amounts paid or received for specific years. Report loss payments net of salvage and subrogation received.

Years in Which Premiums Were Earned and Losses Were Incurred	Losses Unpaid: Case Basis 13 Direct and Assumed	Losses Unpaid: Case Basis 14 Ceded	Losses Unpaid: Bulk + IBNR 15 Direct and Assumed	Losses Unpaid: Bulk + IBNR 16 Ceded	Allocated Loss Expenses Unpaid: Case Basis 17 Direct and Assumed	Allocated Loss Expenses Unpaid: Case Basis 18 Ceded	Allocated Loss Expenses Unpaid: Bulk + IBNR 19 Direct and Assumed	Allocated Loss Expenses Unpaid: Bulk + IBNR 20 Ceded	21 Unallocated Loss Expenses Unpaid	22 Total Net Losses and Expenses Unpaid	23 Number of Claims Outstanding — Direct and Assumed
1. Prior	14,846	4,030	25,272	3,151	3,113	762	672	71	250	34,047	62
2. 1982	13,800	6,782	3,030	434	727	287	759	379	834	11,648	41
3. 1983	8,635	5,893	4,164	1,082	1,339	49	4,977	446	72	11,420	40
4. 1984	3,024	1,853	1,542	361	772	108	3,934	504	140	8,806	34
5. 1985	115	32	921	46	86	60	41	2	3	946	1
6. 1986											
7. 1987											
8. 1988											
9. 1989			2							2	
10. 1990											
11. 1991											
12. Totals	40,320	18,588	35,351	4,914	4,035	1,263	10,283	1,606	1,299	64,920	164

Years in Which Premiums Were Earned and Losses Were Incurred	Total Losses and Loss Expenses Incurred: 24 Direct and Assumed	25 Ceded	26 Net *	Loss and Loss Expense Percentage (Incurred/Premiums Earned): 27 Direct and Assumed	28 Ceded	29 Net	Discount for Time Value of Money: 30 Loss	31 Loss Expense	32 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount: 33 Losses Unpaid	34 Loss Expenses Unpaid
1. Prior	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X	32,937	1,310
2. 1982	51,698	33,345	18,353	241.3	175.2	766.6				10,034	1,654
3. 1983	71,879	45,351	26,228	263.9	206.0	511.4				6,726	5,054
4. 1984	33,271	15,776	15,495	174.7	123.9	303.6				2,672	4,239
5. 1985	3,822	1,681	2,141	102.9	121.6	91.4				938	48
6. 1986											
7. 1987											
8. 1988											
9. 1989	2		2	100.0		100.0				2	
10. 1990											
11. 1991											
12. Totals	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X	62,188	12,709

*Net = (24 − 25) = (11 + 22)

CONSOLIDATED ANNUAL STATEMENT FOR THE YEAR 1991 OF THE ALLSTATE INSURANCE COMPANY AND ITS AFFILIATED FIRE AND CASUALTY INSURERS
(Name)

SCHEDULE P - PART 1G - SPECIAL LIABILITY (OCEAN MARINE, AIRCRAFT (ALL PERILS), BOILER AND MACHINERY)

(000 omitted)

1 Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned: 2 Direct and Assumed	3 Ceded	4 Net (2 − 3)	Loss Payments: 5 Direct and Assumed	6 Ceded	Allocated Loss Expense Payments: 7 Direct and Assumed	8 Ceded	9 Salvage and Subrogation Received	10 Unallocated Loss Expense Payments	11 Total Net Paid (5 − 6 + 7 − 8 + 10)	12 Number of Claims Reported — Direct and Assumed
1. Prior	XXXX	XXXX	XXXX	370	4	58	33	114		407	XXXX
2. 1982	36,849	1,800	35,043	34,327	1,124	81	(1)	340	176	33,060	XXXX
3. 1983	40,802	2,447	37,455	35,605	3,042	306	39	1,117	227	32,316	XXXX
4. 1984	44,364	5,236	39,120	27,911	1,677	213	8	542	187	26,426	XXXX
5. 1985	33,242	3,401	29,861	19,101	2,340	172	(2)	201	253	17,165	XXXX
6. 1986	30,947	5,273	25,674	18,451	561	447	(1)	139	310	18,648	XXXX
7. 1987	38,021	5,348	32,673	34,180	8,307	2,018	14	379	428	28,306	XXXX
8. 1988	39,250	5,425	33,825	30,234	7,618	1,212	12	210	630	24,370	XXXX
9. 1989	39,526	7,642	31,843	18,789	699	964	5	230	686	19,709	XXXX
10. 1990	31,210	6,632	24,678	9,426	686	424	1	142	623	9,790	XXXX
11. 1991	27,937	5,840	22,097	5,422	251	52		72	484	5,711	XXXX
12. Totals	XXXX	XXXX	XXXX	233,868	27,761	5,974	80	3,486	3,904	215,907	XXXX

Note: For "prior," report amounts paid or received in current year only.
Report cumulative amounts paid or received for specific years. Report loss payments net of salvage and subrogation received.

Years in Which Premiums Were Earned and Losses Were Incurred	Losses Unpaid — Case Basis: 13 Direct and Assumed	14 Ceded	Losses Unpaid — Bulk + IBNR: 15 Direct and Assumed	16 Ceded	Allocated Loss Expenses Unpaid — Case Basis: 17 Direct and Assumed	18 Ceded	Allocated Loss Expenses Unpaid — Bulk + IBNR: 19 Direct and Assumed	20 Ceded	21 Unallocated Loss Expenses Unpaid	22 Total Net Losses and Expenses Unpaid	23 Number of Claims Outstanding — Direct and Assumed
1. Prior	7,880	486	125	16	281	12	3			7,776	
2. 1982	1,506		399	90	45		10	1		1,909	
3. 1983	2,493	313	1,064	333	122	8	27	3		3,441	
4. 1984	5,857	39	743	93	168	2	24	3		6,468	
5. 1985	1,839	42	861	70	73	3	34	2		2,128	
6. 1986	1,700	126	1,479	180	63	3	42	6		2,958	
7. 1987	7,035	1,135	2,603	324	348	44	80	10		8,973	
8. 1988	9,265	449	1,309	143	458	11	49	6		10,452	1
9. 1989	11,353	465	797	98	499	235	29	4		11,899	1
10. 1990	5,885	433	1,961	241	309	25	62	8	1	7,631	3
11. 1991	2,452	514	478	15	93	17	9		56	2,841	53
12. Totals	57,665	4,702	11,509	1,341	2,646	340	351	42	66	66,242	58

Years in Which Premiums Were Earned and Losses Were Incurred	Total Losses and Loss Expenses Incurred: 24 Direct and Assumed	25 Ceded	26 Net *	Loss and Loss Expense Percentage (Incurred/Premiums Earned): 27 Direct and Assumed	28 Ceded	29 Net	Discount for Time Value of Money: 30 Loss	31 Loss Expense	32 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount: 33 Losses Unpaid	34 Loss Expenses Unpaid
1. Prior	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX			XXXX	7,503	272
2. 1982	36,543	1,574	34,969	99.7	87.1	99.6				1,656	54
3. 1983	40,113	4,356	35,757	99.0	164.6	94.6				3,308	138
4. 1984	35,106	2,022	33,084	79.1	38.6	84.6				6,468	190
5. 1985	21,808	2,515	19,293	65.6	48.1	65.3				2,048	80
6. 1986	22,480	874	21,606	72.9	16.6	84.2				2,873	85
7. 1987	47,092	9,814	37,278	123.9	183.6	114.1				8,599	374
8. 1988	43,079	8,257	34,822	109.8	146.8	103.6				9,962	490
9. 1989	33,291	1,686	31,605	84.2	22.0	91.7				11,387	609
10. 1990	19,095	1,374	17,321	54.9	20.7	70.5				7,192	339
11. 1991	9,049	797	8,252	32.4	11.8	37.3				2,401	140
12. Totals	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX			XXXX	63,601	2,671

*Net = (24 − 25) = (11 + 22)

SCHEDULE P - PART 1H - OTHER LIABILITY

(000 omitted)

1 Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned: 2 Direct and Assumed	3 Ceded	4 Net (2 - 3)	Loss and Loss Expense Payments: Loss Payments: 5 Direct and Assumed	6 Ceded	Allocated Loss Expense Payments: 7 Direct and Assumed	8 Ceded	9 Salvage and Subrogation Received	10 Unallocated Loss Expense Payments	11 Total Net Paid (5 - 6 + 7 - 8 + 10)	12 Number of Claims Reported - Direct and Assumed
1. Prior	XXXX	XXXX	XXXX	31,411	9,763	14,447	9,210	142	1,652	20,929	XXXX
2. 1982	83,097	30,958	58,339	93,077	33,806	16,304	8,990	166	6,340	70,927	511,395
3. 1983	73,716	20,436	53,282	93,102	26,084	21,213	6,028	1,092	5,483	88,984	512,294
4. 1984	78,332	14,967	63,365	74,044	15,304	19,106	2,264	35	3,932	76,434	518,422
5. 1985	79,427	13,698	65,729	51,314	2,089	8,294	(199)	1,165	4,400	59,110	579,745
6. 1986	124,247	15,032	109,215	64,496	4,072	11,823	3,863	406	4,146	72,829	569,590
7. 1987	127,971	17,291	110,680	63,066	1,992	10,702	155	79	4,069	76,912	654,497
8. 1988	147,443	13,338	134,303	67,489	5,799	11,062	20	73	4,739	77,471	719,143
9. 1989	109,835	25,768	84,067	53,259	13,456	9,660	58	50	3,065	48,470	31,803
10. 1990	125,106	26,096	99,010	28,828	7,324	2,300		47	3,453	27,263	26,440
11. 1991	86,887	22,014	64,873	7,285	1	410	6	25	3,391	10,879	21,063
12. Totals	XXXX	XXXX	XXXX	629,591	118,774	112,322	39,403	3,300	43,470	638,206	XXXX

Note: For "prior," report amounts paid or received in current year only.
Report cumulative amounts paid or received for specific years. Report loss payments net of salvage and subrogation received.

Years in Which Premiums Were Earned and Losses Were Incurred	Losses Unpaid: Case Basis: 13 Direct and Assumed	14 Ceded	Bulk + IBNR: 15 Direct and Assumed	16 Ceded	Allocated Loss Expenses Unpaid: Case Basis: 17 Direct and Assumed	18 Ceded	Bulk + IBNR: 19 Direct and Assumed	20 Ceded	21 Unallocated Loss Expenses Unpaid	22 Total Net Losses and Expenses Unpaid	23 Number of Claims Outstanding - Direct and Assumed
1. Prior	355,206	39,555	174,257	76,207	30,982	12,054	47,437	29,717	3,398	253,746	2,013
2. 1982	17,948	5,832	19,767	6,182	2,568	817	3,909	2,072	356	29,845	137
3. 1983	22,618	8,895	19,668	4,143	2,510	393	2,482	1,061	702	33,910	75
4. 1984	9,693	1,476	28,818	2,142	2,405	443	4,266	209	66	40,680	42
5. 1985	16,611	2,003	11,656	1,222	4,924	230	992	56	80	32,952	70
6. 1986	12,984	3,312	10,376	702	5,464	3,435	1,304	29	353	23,882	158
7. 1987	24,511	319	14,615	608	7,771	3	2,355	24	450	49,166	333
8. 1988	26,392	44	18,768	462	9,328	1	3,346	38	797	57,924	448
9. 1989	28,867	16	19,030	664	8,493	1	3,601	26	1,718	60,702	952
10. 1990	32,978	732	23,598	492	9,799	310	4,684	20	3,054	72,959	1,566
11. 1991	34,275	328	34,827	352	9,736	24	8,804	7	6,430	92,761	5,156
12. Totals	583,266	61,714	375,417	92,962	93,980	17,627	83,606	33,241	16,206	747,411	11,208

Years in Which Premiums Were Earned and Losses Were Incurred	Total Losses and Loss Expenses Incurred: 24 Direct and Assumed	25 Ceded	26 Net *	Loss and Loss Expense Percentage (Incurred/Premiums Earned): 27 Direct and Assumed	28 Ceded	29 Net	Discount for Time Value of Money: 30 Loss	31 Loss Expense	32 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount: 33 Losses Unpaid	34 Loss Expenses Unpaid
1. Prior	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX			XXXX	213,790	40,046
2. 1982	158,260	57,788	100,472	177.4	186.7	172.8				25,721	3,824
3. 1983	167,857	45,263	122,894	227.7	221.5	230.1				25,468	4,442
4. 1984	137,976	21,961	116,014	176.1	146.7	183.1				34,493	6,007
5. 1985	97,221	5,151	92,070	122.4	37.6	140.1				27,242	5,710
6. 1986	110,924	15,213	95,711	89.3	101.2	87.6				19,825	3,657
7. 1987	128,561	2,903	125,658	100.6	16.8	113.6				38,999	10,547
8. 1988	141,743	6,344	135,399	96.0	47.0	100.8				44,874	13,254
9. 1989	123,395	14,223	109,172	112.3	55.2	129.9				46,016	13,787
10. 1990	106,892	6,680	100,212	87.0	33.3	101.2				55,350	17,609
11. 1991	103,964	324	103,640	119.7	1.5	159.8				48,820	23,941
12. Totals	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX			XXXX	604,907	142,904

*Net = (24 - 25) = (11 + 22)

SCHEDULE P - PART 1I - SPECIAL PROPERTY (FIRE, ALLIED LINES, INLAND MARINE, EARTHQUAKE, GLASS, BURGLARY AND THEFT)

(000 omitted)

1 Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned: 2 Direct and Assumed	3 Ceded	4 Net (2 − 3)	Loss and Loss Expense Payments — Loss Payments: 5 Direct and Assumed	6 Ceded	Allocated Loss Expense Payments: 7 Direct and Assumed	8 Ceded	9 Salvage and Subrogation Received	10 Unallocated Loss Expense Payments	11 Total Net Paid (5 − 6 + 7 − 8 + 10)	12 Number of Claims Reported — Direct and Assumed
1. Prior	X X X X	X X X X	X X X X	65,354	26,290	6,131	(715)	2,156	194	36,104	X X X X
2. 1990	420,025	60,066	359,959	236,389	13,087	4,756	574	2,765	15,622	222,906	X X X X
3. 1991	479,759	69,808	409,951	154,336	12,332	3,333	583	1,482	14,158	189,112	X X X X
4. Totals	X X X X	X X X X	X X X X	456,079	51,709	14,219	442	6,403	29,974	448,121	X X X X

Note: For "prior," report amounts paid or received in current year only.
Report cumulative amounts paid or received for specific years. Report loss payments net of salvage and subrogation received.

Years in Which Premiums Were Earned and Losses Were Incurred	Losses Unpaid — Case Basis: 13 Direct and Assumed	14 Ceded	Bulk + IBNR: 15 Direct and Assumed	16 Ceded	Allocated Loss Expenses Unpaid — Case Basis: 17 Direct and Assumed	18 Ceded	Bulk + IBNR: 19 Direct and Assumed	20 Ceded	21 Unallocated Loss Expense Unpaid	22 Total Net Losses and Expenses Unpaid	23 Number of Claims Outstanding — Direct and Assumed
1. Prior	45,135	17,537	7,730	678	3,160	1,736	300	58	151	34,447	828
2. 1990	7,773	328	4,162	348	316	4	152	10	176	11,889	268
3. 1991	43,725	7,700	15,789	742	2,527	93	430	2	2,638	55,482	5,890
4. Totals	96,633	26,565	27,681	1,768	6,003	1,833	882	70	2,965	103,830	6,986

Years in Which Premiums Were Earned and Losses Were Incurred	Total Losses and Loss Expenses Incurred: 24 Direct and Assumed	25 Ceded	26 Net *	Loss and Loss Expense Percentage (Incurred/Premiums Earned): 27 Direct and Assumed	28 Ceded	29 Net	Discount for Time Value of Money: 30 Loss	31 Loss Expense	32 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount: 33 Losses Unpaid	34 Loss Expenses Unpaid
1. Prior	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X	34,650	1,817
2. 1990	249,146	14,351	234,794	58.2	23.9	63.8				11,260	630
3. 1991	266,036	21,442	244,594	55.4	30.7	59.7				51,082	4,400
4. Totals	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X	96,991	6,847

*Net = (24 − 25) = (11 + 22)

SCHEDULE P - PART 1J - AUTO PHYSICAL DAMAGE

(000 omitted)

1 Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned: 2 Direct and Assumed	3 Ceded	4 Net (2 − 3)	Loss and Loss Expense Payments — Loss Payments: 5 Direct and Assumed	6 Ceded	Allocated Loss Expense Payments: 7 Direct and Assumed	8 Ceded	9 Salvage and Subrogation Received	10 Unallocated Loss Expense Payments	11 Total Net Paid (5 − 6 + 7 − 8 + 10)	12 Number of Claims Reported — Direct and Assumed
1. Prior	X X X X	X X X X	X X X X	(39,356)	(3,158)	2,479	69	47,316	4	(33,782)	X X X X
2. 1990	3,889,944	40,789	3,849,155	2,443,193	21,645	9,098	7	437,777	224,624	2,665,167	2,969,204
3. 1991	4,211,993	38,416	4,073,577	2,274,607	18,403	4,760		271,872	216,421	2,470,985	2,760,261
4. Totals	X X X X	X X X X	X X X X	4,678,446	36,890	16,337	76	756,965	442,353	6,099,970	X X X X

Notes: For "prior," report amounts paid or received in current year only.
Report cumulative amounts paid or received for specific years. Report loss payments net of salvage and subrogation received.

Years in Which Premiums Were Earned and Losses Were Incurred	Losses Unpaid — Case Basis: 13 Direct and Assumed	14 Ceded	Bulk + IBNR: 15 Direct and Assumed	16 Ceded	Allocated Loss Expenses Unpaid — Case Basis: 17 Direct and Assumed	18 Ceded	Bulk + IBNR: 19 Direct and Assumed	20 Ceded	21 Unallocated Loss Expenses Unpaid	22 Total Net Losses and Expenses Unpaid	23 Number of Claims Outstanding — Direct and Assumed
1. Prior	2,924	184	12,866	231	179	14	127	11	1	16,457	377
2. 1990	4,869	32	16,733	394	318	1	236	23	3	31,706	571
3. 1991	278,664	2,914	65,798	863	7,224	70	349	20	21,112	349,284	76,781
4. Totals	286,457	3,130	95,397	1,488	7,721	85	712	54	21,116	406,446	77,729

Years in Which Premiums Were Earned and Losses Were Incurred	Total Losses and Loss Expenses Incurred: 24 Direct and Assumed	25 Ceded	26 Net *	Loss and Loss Expense Percentage (Incurred/Premiums Earned): 27 Direct and Assumed	28 Ceded	29 Net	Discount for Time Value of Money: 30 Loss	31 Loss Expense	32 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount: 33 Losses Unpaid	34 Loss Expenses Unpaid
1. Prior	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X	15,376	282
2. 1990	2,700,974	24,102	2,676,872	69.4	59.1	69.6				21,376	829
3. 1991	2,868,139	20,270	2,847,869	69.8	52.8	69.9				340,685	28,599
4. Totals	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X	377,036	29,410

*Net = (24 − 25) = (11 + 22)

SCHEDULE P - PART 1K - FIDELITY, SURETY, FINANCIAL GUARANTY, MORTGAGE GUARANTY

(000 omitted)

1 Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned 2 Direct and Assumed	3 Ceded	4 Net (2 − 3)	Loss and Loss Expense Payments: Loss Payments 5 Direct and Assumed	6 Ceded	Allocated Loss Expense Payments 7 Direct and Assumed	8 Ceded	9 Salvage and Subrogation Received	10 Unallocated Loss Expense Payments	11 Total Net Paid (5 − 6 + 7 − 8 + 10)	12 Number of Claims Reported — Direct and Assumed
1. Prior	X X X X	X X X X	X X X X	23,027	1,412	2,783	301	6,376	373	22,470	X X X X
2. 1990	159,834	4,799	155,035	42,179	1,391	911		724	2,349	44,148	X X X X
3. 1991	183,568	5,694	177,874	10,096	602	28		10	2,606	12,127	X X X X
4. Totals	X X X X	X X X X	X X X X	75,302	3,306	3,722	301	7,110	5,327	78,745	X X X X

Note: For "prior," report amounts paid or received in current year only.
Report cumulative amounts paid or received for specific years. Report loss payments net of salvage and subrogation received.

Years in Which Premiums Were Earned and Losses Were Incurred	Losses Unpaid: Case Basis 13 Direct and Assumed	14 Ceded	Bulk + IBNR 15 Direct and Assumed	16 Ceded	Allocated Loss Expenses Unpaid: Case Basis 17 Direct and Assumed	18 Ceded	Bulk + IBNR 19 Direct and Assumed	20 Ceded	21 Unallocated Loss Expense Unpaid	22 Total Net Losses and Expenses Unpaid	23 Number of Claims Outstanding — Direct and Assumed
1. Prior	29,860	3,460	18,789	2,313	2,706	436	2,339	291	284	47,457	1,076
2. 1990	37,169	384	4,618	515	316		515	64	314	21,864	2,390
3. 1991	58,734	1,633	7,768	328	14		298	34	2,384	67,180	6,846
4. Totals	105,763	5,477	31,029	3,156	3,036	436	3,152	389	2,982	136,513	10,312

Years in Which Premiums Were Earned and Losses Were Incurred	Total Losses and Loss Expenses Incurred 24 Direct and Assumed	25 Ceded	26 Net *	Loss and Loss Expense Percentage (Incurred/Premiums Earned) 27 Direct and Assumed	28 Ceded	29 Net	Discount for Time Value of Money 30 Loss	31 Loss Expense	32 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount 33 Losses Unpaid	34 Loss Expenses Unpaid
1. Prior	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X	42,846	4,611
2. 1990	60,268	2,256	66,016	42.7	47.0	42.6				20,785	1,081
3. 1991	81,934	2,617	79,317	44.6	46.0	44.6				64,828	2,662
4. Totals	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X	128,359	8,354

*Net = (24 − 25) = (11 + 22)

SCHEDULE P - PART 1L - OTHER (INCLUDING CREDIT, ACCIDENT AND HEALTH)

(000 omitted)

1 Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned 2 Direct and Assumed	3 Ceded	4 Net (2 − 3)	Loss and Loss Expense Payments: Loss Payments 5 Direct and Assumed	6 Ceded	Allocated Loss Expense Payments 7 Direct and Assumed	8 Ceded	9 Salvage and Subrogation Received	10 Unallocated Loss Expense Payments	11 Total Net Paid (5 − 6 + 7 − 8 + 10)	12 Number of Claims Reported — Direct and Assumed
1. Prior	X X X X	X X X X	X X X X	110						110	X X X X
2. 1990	568		664	210					63	273	X X X X
3. 1991	394		394	128						128	X X X X
4. Totals	X X X X	X X X X	X X X X	448					63	611	X X X X

Note: For "prior," report amounts paid or received in current year only.
Report cumulative amounts paid or received for specific years. Report loss payments net of salvage and subrogation received.

Years in Which Premiums Were Earned and Losses Were Incurred	Losses Unpaid: Case Basis 13 Direct and Assumed	14 Ceded	Bulk + IBNR 15 Direct and Assumed	16 Ceded	Allocated Loss Expenses Unpaid: Case Basis 17 Direct and Assumed	18 Ceded	Bulk + IBNR 19 Direct and Assumed	20 Ceded	21 Unallocated Loss Expenses Unpaid	22 Total Net Losses and Expenses Unpaid	23 Number of Claims Outstanding — Direct and Assumed
1. Prior	146		2							148	
2. 1990	20		1							21	
3. 1991	22		13							35	17
4. Totals	188		16							204	17

Years in Which Premiums Were Earned and Losses Were Incurred	Total Losses and Loss Expenses Incurred 24 Direct and Assumed	25 Ceded	26 Net *	Loss and Loss Expense Percentage (Incurred/Premiums Earned) 27 Direct and Assumed	28 Ceded	29 Net	Discount for Time Value of Money 30 Loss	31 Loss Expense	32 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount 33 Losses Unpaid	34 Loss Expenses Unpaid
1. Prior	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X	148	
2. 1990	294		294	51.8		51.8				21	
3. 1991	163		163	41.4		41.4				35	
4. Totals	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X	204	

*Net = (24 − 25) = (11 + 22)

SCHEDULE P - PART 1M - INTERNATIONAL

(000 omitted)

1 Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned: 2 Direct and Assumed	Premiums Earned: 3 Ceded	Premiums Earned: 4 Net (2 − 3)	Loss and Loss Expense Payments — Loss Payments: 5 Direct and Assumed	Loss Payments: 6 Ceded	Allocated Loss Expense Payments: 7 Direct and Assumed	Allocated Loss Expense Payments: 8 Ceded	9 Salvage and Subrogation Received	10 Unallocated Loss Expense Payments	11 Total Net Paid (5 − 6 + 7 − 8 + 10)	12 Number of Claims Reported — Direct and Assumed
1. Prior	X X X X	X X X X	X X X X								X X X X
2. 1982											X X X X
3. 1983											X X X X
4. 1984											X X X X
5. 1985											X X X X
6. 1986											X X X X
7. 1987											X X X X
8. 1988											X X X X
9. 1989											X X X X
10. 1990											X X X X
11. 1991											X X X X
12. Totals	X X X X	X X X X	X X X X								X X X X

Note: For "prior," report amounts paid or received in current year only.
Report cumulative amounts paid or received for specific years. Report loss payments net of salvage and subrogation received.

Years in Which Premiums Were Earned and Losses Were Incurred	Losses Unpaid — Case Basis: 13 Direct and Assumed	Case Basis: 14 Ceded	Bulk + IBNR: 15 Direct and Assumed	Bulk + IBNR: 16 Ceded	Allocated Loss Expenses Unpaid — Case Basis: 17 Direct and Assumed	Case Basis: 18 Ceded	Bulk + IBNR: 19 Direct and Assumed	Bulk + IBNR: 20 Ceded	21 Unallocated Loss Expenses Unpaid	22 Total Net Losses and Expenses Unpaid	23 Number of Claims Outstanding — Direct and Assumed
1. Prior											
2. 1982											
3. 1983											
4. 1984											
5. 1985											
6. 1986					NONE						
7. 1987											
8. 1988											
9. 1989											
10. 1990											
11. 1991											
12. Totals											

Years in Which Premiums Were Earned and Losses Were Incurred	Total Losses and Loss Expenses Incurred: 24 Direct and Assumed	25 Ceded	26 Net *	Loss and Loss Expense Percentage (Incurred/Premiums Earned): 27 Direct and Assumed	28 Ceded	29 Net	Discount for Time Value of Money: 30 Loss	31 Loss Expense	32 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount: 33 Losses Unpaid	34 Loss Expenses Unpaid
1. Prior	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X		
2. 1982											
3. 1983											
4. 1984											
5. 1985											
6. 1986											
7. 1987											
8. 1988											
9. 1989											
10. 1990											
11. 1991											
12. Totals	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X		

*Net = (24 − 25) = (11 + 22)

CONSOLIDATED ANNUAL STATEMENT FOR THE YEAR 1991 OF THE ALLSTATE INSURANCE COMPANY AND ITS AFFILIATED FIRE AND CASUALTY INSURERS
(Name)

SCHEDULE P - PART 1N - REINSURANCE A

(000 omitted)

1 Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned: 2 Direct and Assumed	3 Ceded	4 Net (2 − 3)	Loss and Loss Expense Payments — Loss Payments: 5 Direct and Assumed	6 Ceded	Allocated Loss Expense Payments: 7 Direct and Assumed	8 Ceded	9 Salvage and Subrogation Received	10 Unallocated Loss Expense Payments	11 Total Net Paid (5 − 6 + 7 − 8 + 10)	12 Number of Claims Reported — Direct and Assumed
1. 1988	19,643	896	18,747	30,872	959	783		24		30,496	X X X X
2. 1989	35,290	2,429	32,861	45,347	20,058	311	55	2		23,665	X X X X
3. 1990	19,436	3,762	15,674	81,861	644	48	6	102		81,267	X X X X
4. 1991	18,415	4,126	14,289	3,679	299	15	5	4		3,290	X X X X
6. Totals	X X X X	X X X X	X X X X	139,687	21,960	1,157	66	132		138,818	X X X X

Note: For "prior," report amounts paid or received in current year only.
Report cumulative amounts paid or received for specific years. Report loss payments net of salvage and subrogation received.

Years in Which Premiums Were Earned and Losses Were Incurred	Losses Unpaid — Case Basis: 13 Direct and Assumed	14 Ceded	Bulk + IBNR: 15 Direct and Assumed	16 Ceded	Allocated Loss Expenses Unpaid — Case Basis: 17 Direct and Assumed	18 Ceded	Bulk + IBNR: 19 Direct and Assumed	20 Ceded	21 Unallocated Loss Expense Unpaid	22 Total Net Losses and Expenses Unpaid	23 Number of Claims Outstanding — Direct and Assumed
1. 1988	822	61	899	352	22	2	24	3		3,893	X X X X
2. 1989	3,444	930	829	303	93	26	28	4		3,331	X X X X
3. 1990	1,406	33	5,399	672	47	1	152	19		6,481	X X X X
4. 1991	1,672	314	6,432	851	44	9	194	24		7,094	X X X X
6. Totals	7,444	1,316	13,559	1,684	206	38	432	50		18,499	X X X X

Years in Which Premiums Were Earned and Losses Were Incurred	Total Losses and and Loss Expenses Incurred: 24 Direct and Assumed	25 Ceded	26 Net *	Loss and Loss Expense Percentage (Incurred/Premiums Earned): 27 Direct and Assumed	28 Ceded	29 Net	Discount for Time Value of Money: 30 Loss	31 Loss Expense	32 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount: 33 Losses Unpaid	34 Loss Expenses Unpaid
1. 1988	31,424	1,137	12,889	68.4	126.9	65.6				1,848	45
2. 1989	45,072	21,176	26,896	314.4	871.8	209.1				3,240	91
3. 1990	89,321	1,373	87,948	459.6	36.5	541.1				6,502	179
4. 1991	11,836	1,452	10,384	44.3	35.2	72.7				6,889	205
6. Totals	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X	18,479	520

*Net = (24 − 25) = (11 + 22)

SCHEDULE P - PART 1O - REINSURANCE B

(000 omitted)

1 Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned: 2 Direct and Assumed	3 Ceded	4 Net (2 − 3)	Loss and Loss Expense Payments — Loss Payments: 5 Direct and Assumed	6 Ceded	Allocated Loss Expense Payments: 7 Direct and Assumed	8 Ceded	9 Salvage and Subrogation Received	10 Unallocated Loss Expense Payments	11 Total Net Paid (5 − 6 + 7 − 8 + 10)	12 Number of Claims Reported — Direct and Assumed
1. 1988	44,347	1,270	43,077	6,700	406	251		192		6,645	X X X X
2. 1989	35,326	1,068	34,258	9,123	499	160		3		8,784	X X X X
3. 1990	40,844	3,125	37,719	10,033	80	70				10,021	X X X X
4. 1991	44,365	678	43,687	2,352		159				2,511	X X X X
6. Totals	X X X X	X X X X	X X X X	28,206	985	640		195		27,961	X X X X

Note: For "prior," report amounts paid or received in current year only.
Report cumulative amounts paid or received for specific years. Report loss payments net of salvage and subrogation received.

Years in Which Premiums Were Earned and Losses Were Incurred	Losses Unpaid — Case Basis: 13 Direct and Assumed	14 Ceded	Bulk + IBNR: 15 Direct and Assumed	16 Ceded	Allocated Loss Expenses Unpaid — Case Basis: 17 Direct and Assumed	18 Ceded	Bulk + IBNR: 19 Direct and Assumed	20 Ceded	21 Unallocated Loss Expenses Unpaid	22 Total Net Losses and Expenses Unpaid	23 Number of Claims Outstanding — Direct and Assumed
1. 1988	6,894	1,042	12,416	1,546	321	57	506	61		17,429	X X X X
2. 1989	8,018	735	12,176	1,616	259	41	463	58		16,663	X X X X
3. 1990	4,496	411	12,806	1,407	328	23	607	76		18,217	X X X X
4. 1991	3,387	124	27,330	3,404	202	8	1,402	176		26,610	X X X X
6. Totals	21,791	2,314	64,828	8,073	1,110	129	2,978	372		79,031	X X X X

Years in Which Premiums Were Earned and Losses Were Incurred	Total Losses and and Loss Expenses Incurred: 24 Direct and Assumed	25 Ceded	26 Net *	Loss and Loss Expense Percentage (Incurred/Premiums Earned): 27 Direct and Assumed	28 Ceded	29 Net	Discount for Time Value of Money: 30 Loss	31 Loss Expense	32 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount: 33 Losses Unpaid	34 Loss Expenses Unpaid
1. 1988	27,048	3,114	23,974	61.1	245.2	65.7				16,722	707
2. 1989	27,396	2,849	24,547	77.0	266.4	71.1				14,940	423
3. 1990	30,437	2,199	28,238	74.5	70.4	74.9				17,381	636
4. 1991	34,832	3,711	31,121	78.5	547.3	71.2				27,189	1,421
6. Totals	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X	76,232	3,187

*Net = (24 − 25) = (11 + 22)

SCHEDULE P - PART 1P - REINSURANCE C
(000 omitted)

1 Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned: 2 Direct and Assumed	3 Ceded	4 Net (2 − 3)	Loss and Loss Expense Payments: Loss Payments: 5 Direct and Assumed	6 Ceded	Allocated Loss Expense Payments: 7 Direct and Assumed	8 Ceded	9 Salvage and Subrogation Received	10 Unallocated Loss Expense Payments	11 Total Net Paid (5 − 6 + 7 − 8 + 10)	12 Number of Claims Reported — Direct and Assumed
1. 1988	16,852	736	16,116	13,346		31		1,141		13,377	X X X X
2. 1989	20,607	1,031	19,576	2,329		14		205		2,343	X X X X
3. 1990	25,795	843	24,952	10,077	1,494	206		127		8,788	X X X X
4. 1991	20,773	204	20,569	1,283				95		1,283	X X X X
5. Totals	X X X X	X X X X	X X X X	27,035	1,494	250		1,569		24,791	X X X X

NOTE: For "prior," report amounts paid or received in current year only.
Report cumulative amounts paid or received for specific years. Report loss payments net of salvage and subrogation received.

Years in Which Premiums Were Earned and Losses Were Incurred	Losses Unpaid: Case Basis: 13 Direct and Assumed	14 Ceded	Bulk + IBNR: 15 Direct and Assumed	16 Ceded	Allocated Loss Expenses Unpaid: Case Basis: 17 Direct and Assumed	18 Ceded	Bulk + IBNR: 19 Direct and Assumed	20 Ceded	21 Unallocated Loss Expenses Unpaid	22 Total Net Losses and Expenses Unpaid	23 Number of Claims Outstanding — Direct and Assumed
1. 1988	766		4,749	591	101		634	80		5,583	X X X X
2. 1989	1,339		3,453	430	184		467	58		4,959	X X X X
3. 1990	3,006	400	7,026	475	234	100	341	117		9,309	X X X X
4. 1991	3,026	11	6,999	747	393	1	772	96		9,336	X X X X
5. Totals	8,137	411	22,227	2,243	916	101	2,820	351		29,184	X X X X

Years in Which Premiums Were Earned and Losses Were Incurred	Total Losses and Loss Expenses Incurred: 24 Direct and Assumed	25 Ceded	26 Net *	Loss and Loss Expense Percentage (Incurred/Premiums Earned): 27 Direct and Assumed	28 Ceded	29 Net	Discount for Time Value of Money: 30 Loss	31 Loss Expense	32 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount: 33 Losses Unpaid	34 Loss Expenses Unpaid
1. 1988	19,631	671	18,960	116.5	91.2	117.6				4,924	659
2. 1989	7,790	488	7,302	37.8	47.3	37.3				4,362	597
3. 1990	23,491	5,394	18,097	83.3	402.6	72.5				8,349	960
4. 1991	11,473	855	10,618	55.2	419.1	51.4				8,287	1,068
5. Totals	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X	25,902	3,284

*Net = (24 − 25) = (11 + 22)

SCHEDULE P - PART 1Q - REINSURANCE D
(000 omitted)

1 Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned: 2 Direct and Assumed	3 Ceded	4 Net (2 − 3)	Loss and Loss Expense Payments: Loss Payments: 5 Direct and Assumed	6 Ceded	Allocated Loss Expense Payments: 7 Direct and Assumed	8 Ceded	9 Salvage and Subrogation Received	10 Unallocated Loss Expense Payments	11 Total Net Paid (5 − 6 + 7 − 8 + 10)	12 Number of Claims Reported — Direct and Assumed
1. Prior	X X X X	X X X X	X X X X								X X X X
2. 1982											X X X X
3. 1983											X X X X
4. 1984											X X X X
5. 1985											X X X X
6. 1986											X X X X
7. 1987											X X X X
8. Totals	X X X X	X X X X	X X X X								X X X X

NOTE: For "prior," report amounts paid or received in current year only.
Report cumulative amounts paid or received for specific years. Report loss payments net of salvage and subrogation received.

Years in Which Premiums Were Earned and Losses Were Incurred	Losses Unpaid: Case Basis: 13 Direct and Assumed	14 Ceded	Bulk + IBNR: 15 Direct and Assumed	16 Ceded	Allocated Loss Expenses Unpaid: Case Basis: 17 Direct and Assumed	18 Ceded	Bulk + IBNR: 19 Direct and Assumed	20 Ceded	21 Unallocated Loss Expenses Unpaid	22 Total Net Losses and Expenses Unpaid	23 Number of Claims Outstanding — Direct and Assumed
1. Prior											X X X X
2. 1982											X X X X
3. 1983											X X X X
4. 1984											X X X X
5. 1985											X X X X
6. 1986											X X X X
7. 1987											X X X X
8. Totals											X X X X

NONE

Years in Which Premiums Were Earned and Losses Were Incurred	Total Losses and Loss Expenses Incurred: 24 Direct and Assumed	25 Ceded	26 Net *	Loss and Loss Expense Percentage (Incurred/Premiums Earned): 27 Direct and Assumed	28 Ceded	29 Net	Discount for Time Value of Money: 30 Loss	31 Loss Expense	32 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount: 33 Losses Unpaid	34 Loss Expenses Unpaid
1. Prior	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X		
2. 1982											
3. 1983											
4. 1984											
5. 1985											
6. 1986											
7. 1987											
8. Totals	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X		

*Net = (24 − 25) = (11 + 22)

CONSOLIDATED ANNUAL STATEMENT FOR THE YEAR 1991 OF THE ALLSTATE INSURANCE COMPANY AND ITS AFFILIATED FIRE AND CASUALTY INSURERS

(Name)

SCHEDULE P - PART 1R - PRODUCTS LIABILITY

(000 omitted)

1 Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned 2 Direct and Assumed	3 Ceded	4 Net (2 − 3)	Loss and Loss Expense Payments — Loss Payments 5 Direct and Assumed	6 Ceded	Allocated Loss Expense Payments 7 Direct and Assumed	8 Ceded	9 Salvage and Subrogation Received	10 Unallocated Loss Expense Payments	11 Total Net Paid (5 − 6 + 7 − 8 + 10)	12 Number of Claims Reported — Direct and Assumed
1. Prior	X X X X	X X X X	X X X X	54,391	15,867	20,892	17,071	697	2,084	44,509	X X X X
2. 1982	44,003	25,913	18,090	67,652	28,415	33,670	4,736	193	2,421	40,292	8,204
3. 1983	26,588	11,288	15,300	37,489	14,969	14,196	5,801	525	1,668	30,583	10,382
4. 1984	19,977	7,488	12,489	29,608	10,346	13,075	3,406	312	1,189	29,620	13,644
5. 1985	20,294	1,944	18,350	12,890	(479)	6,672	(207)	268	2,738	22,962	6,543
6. 1986	40,397	123	40,274	14,068	2	7,532	(4)	167	2,738	24,336	353
7. 1987	61,660	1,288	60,272	9,985	(1)	6,402		92	2,152	18,530	(787)
8. 1988	49,278	560	48,718	11,888		5,580		93	1,678	19,146	510
9. 1989	46,801	66	46,735	7,436		3,081		80	1,781	11,798	6,113
10. 1990	39,528	(90)	39,618	3,176		829		26	1,121	5,126	3,578
11. 1991	31,847	(63)	31,910	464		135		4	470	2,047	1,673
12. Totals	X X X X	X X X X	X X X X	235,327	69,009	93,744	31,203	2,457	20,070	248,929	X X X X

Note: For "prior," report amounts paid or received in current year only.
Report cumulative amounts paid or received for specific years. Report loss payments net of salvage and subrogation received.

Years in Which Premiums Were Earned and Losses Were Incurred	Losses Unpaid — Case Basis 13 Direct and Assumed	14 Ceded	Bulk + IBNR 15 Direct and Assumed	16 Ceded	Allocated Loss Expenses Unpaid — Case Basis 17 Direct and Assumed	18 Ceded	Bulk + IBNR 19 Direct and Assumed	20 Ceded	21 Unallocated Loss Expenses Unpaid	22 Total Net Losses and Expenses Unpaid	23 Number of Claims Outstanding — Direct and Assumed
1. Prior	255,809	78,156	271,077	92,424	40,325	17,406	51,194	31,601	4,973	408,690	1,177
2. 1982	17,752	10,935	17,007	6,099	3,000	962	3,932	2,204	207	21,776	146
3. 1983	8,729	4,889	9,272	3,341	2,407	738	2,647	1,268	343	11,460	94
4. 1984	7,018	3,403	8,278	1,318	2,447	470	1,748	256	198	16,438	129
5. 1985	3,636	399	1,431	11	1,965	31	600	6	190	7,773	328
6. 1986	4,122	56	1,932	46	4,708	74	635	2	299	14,298	139
7. 1987	10,942		3,428	137	4,433		1,060	5	534	20,452	207
8. 1988	12,570		4,739	99	6,220		1,469	5	788	25,889	245
9. 1989	17,064		6,886	85	8,464		2,589	3	1,123	36,188	419
10. 1990	13,729		11,849	155	6,559		4,403	6	1,470	37,657	430
11. 1991	3,282		15,208	146	1,932		5,835	6	2,492	28,678	378
12. Totals	359,673	95,318	351,079	103,831	82,460	19,680	76,552	35,360	14,620	630,155	3,532

Years in Which Premiums Were Earned and Losses Were Incurred	Total Losses and Loss Expenses Incurred 24 Direct and Assumed	25 Ceded	26 Net *	Loss and Loss Expense Percentage (Incurred/Premiums Earned) 27 Direct and Assumed	28 Ceded	29 Net	Discount for Time Value of Money 30 Loss	31 Loss Expense	32 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount 33 Losses Unpaid	34 Loss Expenses Unpaid
1. Prior	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X	354,106	49,484
2. 1982	115,657	53,537	62,070	262.7	204.6	343.1				37,745	4,031
3. 1983	74,343	30,702	44,043	281.1	272.0	287.9				30,071	3,389
4. 1984	63,443	17,385	46,058	317.6	232.2	368.0				32,772	3,666
5. 1985	30,255	(480)	30,736	149.1	(24.7)	167.6				5,056	2,738
6. 1986	40,810	176	40,634	101.0	143.1	100.9				10,732	5,566
7. 1987	39,303	341	38,962	75.6	10.9	77.5				14,430	6,022
8. 1988	45,133	104	45,029	91.6	18.6	92.4				17,210	6,673
9. 1989	48,044	58	47,986	102.7	82.8	102.7				23,815	12,273
10. 1990	42,944	161	42,783	108.4	(178.9)	108.0				25,323	12,434
11. 1991	30,876	151	30,725	97.0	(239.7)	96.3				18,344	10,336
12. Totals	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X			X X X X	611,603	118,882

*Net = (24 − 25) = (11 + 22)

CONSOLIDATED ANNUAL STATEMENT FOR THE YEAR 1991 OF THE ALLSTATE INSURANCE COMPANY AND ITS AFFILIATED FIRE AND CASUALTY INSURERS

(Name)

SCHEDULE P - PART 2A - HOMEOWNERS/FARMOWNERS

1 Years in Which Losses Were Incurred	Incurred Losses and Allocated Expenses Reported at Year End (000 omitted)										Development**	
	2 1982	3 1983	4 1984	5 1985	6 1986	7 1987	8 1988	9 1989	10 1990	11 1991	12 One Year	13 Two Year
1. Prior	122,633 *	124,940	129,281	136,561	139,214	143,335	147,172	149,041	150,096	152,064	1,968	3,023
2. 1982	727,918	730,063	733,785	736,212	738,098	741,118	740,664	740,255	740,195	740,274	79	19
3. 1983	X X X X	785,437	790,535	792,809	796,294	801,042	801,249	805,266	805,086	806,606	1,520	1,340
4. 1984	X X X X	X X X X	823,691	812,623	822,160	823,993	824,092	827,023	829,423	832,204	2,781	5,181
5. 1985	X X X X	X X X X	X X X X	955,618	960,562	970,941	976,423	977,597	977,361	979,539	2,178	1,942
6. 1986	X X X X	X X X X	X X X X	X X X X	984,097	947,671	949,136	952,776	956,707	955,294	(1,413)	2,518
7. 1987	X X X X	X X X X	X X X X	X X X X	X X X X	1,104,965	1,094,289	1,101,102	1,109,934	1,110,599	665	9,497
8. 1988	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	1,308,901	1,305,655	1,315,948	1,307,056	(8,892)	1,401
9. 1989	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	1,554,299	1,676,197	1,663,060	(13,137)	108,761
10. 1990	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	1,660,231	1,716,442	56,211	X X X X
11. 1991	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	1,911,063	X X X X	X X X X
										12. Totals	42,380	133,682

SCHEDULE P - PART 2B - PRIVATE PASSENGER AUTO LIABILITY/MEDICAL

1. Prior	1,300,633 *	1,226,450	1,198,170	1,183,035	1,184,138	1,211,250	1,226,353	1,246,620	1,249,821	1,269,643	19,822	22,823
2. 1982	1,855,593	1,829,284	1,766,385	1,756,432	1,742,830	1,735,380	1,742,495	1,737,270	1,737,795	1,741,896	4,101	4,626
3. 1983	X X X X	2,113,459	2,071,761	2,027,139	2,006,087	1,982,161	1,976,564	1,972,919	1,977,336	1,977,708	372	4,789
4. 1984	X X X X	X X X X	2,301,130	2,257,260	2,219,466	2,183,222	2,171,087	2,167,656	2,164,153	2,166,454	2,301	(1,202)
5. 1985	X X X X	X X X X	X X X X	2,457,312	2,506,207	2,461,476	2,442,941	2,429,410	2,422,651	2,430,726	8,075	1,316
6. 1986	X X X X	X X X X	X X X X	X X X X	2,894,201	2,900,453	2,849,879	2,845,349	2,837,633	2,845,749	8,216	400
7. 1987	X X X X	X X X X	X X X X	X X X X	X X X X	3,327,454	3,319,454	3,283,170	3,280,661	3,300,717	19,856	17,547
8. 1988	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	3,616,120	3,626,624	3,604,473	3,610,159	5,686	(16,465)
9. 1989	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	4,323,878	4,420,320	4,464,848	44,528	140,770
10. 1990	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	4,451,457	4,451,203	(254)	X X X X
11. 1991	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	5,217,562	X X X X	X X X X
										12. Totals	112,703	174,704

SCHEDULE P - PART 2C - COMMERCIAL AUTO/TRUCK LIABILITY/MEDICAL

1. Prior	111,254 *	53,315	93,433	100,830	103,959	98,006	99,389	97,196	102,699	104,414	1,716	7,218
2. 1982	46,831	46,596	47,338	49,066	50,339	49,856	48,985	48,279	48,541	48,346	(195)	67
3. 1983	X X X X	54,777	62,441	68,406	75,330	68,264	68,083	68,418	69,562	68,980	(561)	374
4. 1984	X X X X	X X X X	95,161	108,393	113,963	113,178	109,487	110,642	111,285	111,019	(266)	377
5. 1985	X X X X	X X X X	X X X X	125,552	140,922	144,429	137,628	132,477	133,247	131,937	(1,310)	(540)
6. 1986	X X X X	X X X X	X X X X	X X X X	146,351	155,837	156,378	149,741	146,661	144,767	(1,794)	(4,974)
7. 1987	X X X X	X X X X	X X X X	X X X X	X X X X	175,902	187,444	188,346	187,751	187,041	(710)	(1,305)
8. 1988	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	195,669	205,821	210,337	213,747	3,410	7,926
9. 1989	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	215,019	207,352	202,336	(5,016)	(12,683)
10. 1990	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	216,736	227,034	10,298	X X X X
11. 1991	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	210,006	X X X X	X X X X
										12. Totals	8,569	(1,580)

SCHEDULE P - PART 2D - WORKERS' COMPENSATION

1. Prior	138,670 *	132,066	137,669	122,733	124,783	126,367	133,411	138,687	150,048	155,239	5,191	16,552
2. 1982	38,567	33,473	33,365	34,299	35,069	34,684	35,338	34,322	35,062	34,666	(494)	232
3. 1983	X X X X	62,664	62,138	63,797	67,270	68,404	70,021	69,431	69,368	68,735	(633)	(696)
4. 1984	X X X X	X X X X	109,236	126,346	137,604	144,163	146,001	144,661	141,196	140,547	(649)	(4,094)
5. 1985	X X X X	X X X X	X X X X	143,079	172,265	182,380	186,217	182,457	179,104	179,946	842	(2,511)
6. 1986	X X X X	X X X X	X X X X	X X X X	196,366	212,948	220,763	220,063	209,717	211,085	1,368	(8,998)
7. 1987	X X X X	X X X X	X X X X	X X X X	X X X X	264,867	328,766	319,983	314,654	312,189	(2,465)	(7,794)
8. 1988	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	347,404	362,988	347,288	330,648	(16,640)	(32,340)
9. 1989	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	334,820	314,483	276,494	(37,987)	(58,432)
10. 1990	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	289,198	311,381	22,183	X X X X
11. 1991	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	297,174	X X X X	X X X X
										12. Totals	(29,290)	(58,021)

SCHEDULE P - PART 2E - COMMERCIAL MULTIPLE PERIL

1. Prior	34,718 *	28,099	25,277	21,191	25,081	25,107	28,549	26,080	28,693	30,194	1,501	2,114
2. 1982	59,421	57,874	56,614	54,626	66,025	57,830	67,296	56,293	65,604	65,220	(384)	(1,073)
3. 1983	X X X X	73,771	73,505	68,384	66,739	73,121	71,182	72,704	74,780	73,757	(1,023)	1,053
4. 1984	X X X X	X X X X	102,110	97,624	97,929	101,319	100,037	102,682	102,561	106,434	3,873	3,752
5. 1985	X X X X	X X X X	X X X X	122,690	120,957	133,792	130,584	130,860	132,680	130,362	(2,318)	(506)
6. 1986	X X X X	X X X X	X X X X	X X X X	137,947	146,119	147,118	152,467	152,746	153,733	987	1,266
7. 1987	X X X X	X X X X	X X X X	X X X X	X X X X	168,213	179,374	179,911	184,008	181,381	(2,627)	1,470
8. 1988	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	210,449	205,463	216,939	213,823	(3,116)	8,370
9. 1989	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	254,641	293,690	296,608	2,918	41,967
10. 1990	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	304,719	316,784	12,065	X X X X
11. 1991	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	318,856	X X X X	X X X X
										12. Totals	11,876	60,215

*Reported reserves only. Subsequent development relates only to subsequent payments and reserves.
**Current year less first or second prior year, showing (redundant) or adverse.

CONSOLIDATED ANNUAL STATEMENT FOR THE YEAR 1991 OF THE ALLSTATE INSURANCE COMPANY AND ITS AFFILIATED FIRE AND CASUALTY INSURERS
(Name)

SCHEDULE P - PART 2F - MEDICAL MALPRACTICE

1 Years in Which Losses Were Incurred	Incurred Losses and Allocated Expenses Reported at Year End (000 omitted)										Development**	
	2 1982	3 1983	4 1984	5 1985	6 1986	7 1987	8 1988	9 1989	10 1990	11 1991	12 One Year	13 Two Year
1. Prior	70,516 *	70,105	66,706	65,344	69,604	70,675	69,095	87,299	98,764	101,019	3,066	14,620
2. 1982	1,610	2,045	2,875	4,343	7,476	12,049	9,367	11,446	16,611	17,268	2,654	5,615
3. 1983	XXXX	5,161	5,427	11,605	15,222	19,631	22,120	25,414	24,333	26,679	1,346	265
4. 1984	XXXX	XXXX	4,646	7,662	10,764	13,199	13,707	13,827	14,226	14,653	427	826
5. 1985	XXXX	XXXX	XXXX	1,498	3,730	2,265	2,230	2,060	1,660	1,673	111	(395)
6. 1986	XXXX	XXXX	XXXX	XXXX	1,650	1,446	1,437					
7. 1987	XXXX	XXXX	XXXX	XXXX	XXXX	623	433	451				(491)
8. 1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	300	213				(213)
9. 1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	7	1	2	1	(5)
10. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX				XXXX
11. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX		XXXX	XXXX
										12. Totals	7,594	20,326

SCHEDULE P - PART 2G - SPECIAL LIABILITY (OCEAN MARINE, AIRCRAFT (ALL PERILS), BOILER AND MACHINERY)

1. Prior	57,682 *	55,661	56,070	54,651	56,800	62,424	64,102	54,280	54,604	56,734	2,060	2,445
2. 1982	15,131	29,268	32,840	33,331	31,649	30,944	35,893	36,069	35,927	34,794	(1,133)	(1,275)
3. 1983	XXXX	39,576	34,200	35,123	35,777	37,407	38,139	38,099	37,242	35,530	(1,712)	(2,569)
4. 1984	XXXX	XXXX	15,339	26,650	28,151	29,083	31,142	29,076	29,663	32,897	3,344	3,021
5. 1985	XXXX	XXXX	XXXX	22,919	19,841	22,650	20,412	18,738	18,858	19,043	185	325
6. 1986	XXXX	XXXX	XXXX	XXXX	23,696	24,977	23,830	22,260	20,799	21,256	457	(964)
7. 1987	XXXX	XXXX	XXXX	XXXX	XXXX	26,892	28,847	36,226	35,094	36,650	1,256	624
8. 1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	9,009	23,110	30,751	34,292	3,541	10,942
9. 1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	36,091	20,890	30,919	10,029	20,020
10. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	7,144	16,897	9,653	XXXX
11. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	7,709	XXXX	XXXX
										12. Totals	27,810	33,417

SCHEDULE P - PART 2H - OTHER LIABILITY

1. Prior	370,665 *	363,659	361,680	276,906	266,096	446,972	476,581	444,730	492,152	585,004	92,657	140,278
2. 1982	61,724	69,952	69,091	66,330	80,000	101,338	93,091	89,727	88,912	95,776	6,864	6,049
3. 1983	XXXX	63,652	73,115	63,385	87,606	104,240	102,914	106,033	108,712	116,409	7,697	10,376
4. 1984	XXXX	XXXX	70,263	70,228	74,633	91,332	84,652	94,685	98,154	112,036	13,842	17,351
5. 1985	XXXX	XXXX	XXXX	74,834	84,497	70,424	72,940	74,284	74,320	87,090	12,670	13,306
6. 1986	XXXX	XXXX	XXXX	XXXX	73,195	100,954	100,989	96,098	93,761	91,412	(2,349)	(4,646)
7. 1987	XXXX	XXXX	XXXX	XXXX	XXXX	100,056	111,672	113,926	115,876	120,339	4,763	6,411
8. 1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	112,952	123,449	124,833	129,063	5,030	6,194
9. 1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	86,564	98,495	104,359	5,864	17,823
10. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	107,684	93,703	(14,381)	XXXX
11. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	58,019	XXXX	XXXX
										12. Totals	131,107	211,085

SCHEDULE P - PART 2I - SPECIAL PROPERTY (FIRE, ALLIED LINES, INLAND MARINE, EARTHQUAKE, GLASS, BURGLARY AND THEFT)

1. Prior	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	141,634 *	214,997	221,967	7,000	80,363
2. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	196,709	218,996	20,207	XXXX
3. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	227,898	XXXX	XXXX
										4. Totals	27,207	80,363

SCHEDULE P - PART 2J - AUTO PHYSICAL DAMAGE

1. Prior	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	370,613 *	379,373	122,456	(56,917)	(248,067)
2. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	2,692,483	2,450,343	(242,140)	XXXX
3. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	2,421,136	XXXX	XXXX
										4. Totals	(299,067)	(248,067)

SCHEDULE P - PART 2K - FIDELITY, SURETY, FINANCIAL GUARANTY, MORTGAGE GUARANTY

1. Prior	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	182,760 *	143,017	136,047	(13,270)	(46,213)
2. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	100,801	63,351	(37,450)	XXXX
3. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	74,328	XXXX	XXXX
										4. Totals	(50,720)	(46,213)

*Reported reserves only. Subsequent development relates only to subsequent payments and reserves.
**Current year less first or second prior year, showing (redundant) or adverse.

CONSOLIDATED ANNUAL STATEMENT FOR THE YEAR 1991 OF THE ALLSTATE INSURANCE COMPANY AND ITS AFFILIATED FIRE AND CASUALTY INSURERS
(Name)

SCHEDULE P - PART 2L - OTHER (INCLUDING CREDIT, ACCIDENT AND HEALTH)

1 Years in Which Losses Were Incurred	Incurred Losses and Allocated Expenses Reported at Year End (000 omitted)										Development**	
	2 1982	3 1983	4 1984	5 1985	6 1986	7 1987	8 1988	9 1989	10 1990	11 1991	12 One Year	13 Two Year
1. Prior	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	254 *	485	489	4	235
2. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	194	231	37	XXXX
3. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	163	XXXX	XXXX
										4. Totals	41	235

SCHEDULE P - PART 2M - INTERNATIONAL

NONE

1. Prior	*											
2. 1982												
3. 1983	XXXX											
4. 1984	XXXX	XXXX										
5. 1985	XXXX	XXXX	XXXX									
6. 1986	XXXX	XXXX	XXXX	XXXX								
7. 1987	XXXX	XXXX	XXXX	XXXX	XXXX							
8. 1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX						
9. 1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX					
10. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX				XXXX
11. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX		XXXX	XXXX
										12. Totals		

SCHEDULE P - PART 2N - REINSURANCE A

1. 1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	14,319	13,823	16,856	12,289	(4,567)	(1,534)
2. 1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	21,766	23,065	24,896	1,831	3,130
3. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	32,645	87,948	55,303	XXXX
4. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	10,384	XXXX	XXXX
										5. Totals	52,567	1,596

SCHEDULE P - PART 2O - REINSURANCE B

1. 1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	30,895	31,826	21,795	23,976	2,179	(7,851)
2. 1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	25,872	30,844	24,347	(6,497)	(1,525)
3. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	24,405	28,236	3,831	XXXX
4. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	31,321	XXXX	XXXX
										5. Totals	(485)	(9,376)

SCHEDULE P - PART 2P - REINSURANCE C

1. 1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	12,353	16,903	20,024	18,960	(1,064)	2,057
2. 1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	7,910	9,961	7,302	(2,659)	(608)
3. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	11,612	18,097	6,485	XXXX
4. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	10,416	XXXX	XXXX
										5. Totals	2,762	1,449

SCHEDULE P - PART 2Q - REINSURANCE D

NONE

1. Prior	*											
2. 1982												
3. 1983	XXXX											
4. 1984	XXXX	XXXX										
5. 1985	XXXX	XXXX	XXXX									
6. 1986	XXXX	XXXX	XXXX	XXXX								
7. 1987	XXXX	XXXX	XXXX	XXXX	XXXX							
										8. Totals		

SCHEDULE P - PART 2R - PRODUCTS LIABILITY

1. Prior	328,279 *	145,272	157,391	372,862	425,701	452,127	569,643	667,261	701,061	781,630	80,739	114,569
2. 1982	10,564	12,304	15,848	24,817	36,867	51,009	55,307	51,823	54,806	59,342	4,536	7,519
3. 1983	XXXX	10,046	12,403	16,497	30,978	39,303	42,234	42,928	44,268	42,034	(2,234)	(894)
4. 1984	XXXX	XXXX	4,979	14,124	20,788	34,310	34,888	43,582	45,020	44,673	(347)	1,091
5. 1985	XXXX	XXXX	XXXX	12,447	24,196	26,288	25,667	29,837	28,577	27,831	(746)	(2,006)
6. 1986	XXXX	XXXX	XXXX	XXXX	26,439	26,377	29,619	33,338	35,875	37,621	1,746	4,283
7. 1987	XXXX	XXXX	XXXX	XXXX	XXXX	29,694	31,328	31,896	35,887	36,276	389	4,380
8. 1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	31,998	32,795	44,954	42,662	(2,292)	9,867
9. 1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	34,586	42,045	45,562	3,517	10,976
10. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	36,261	40,184	3,923	XXXX
11. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	27,265	XXXX	XXXX
										12. Totals	89,228	149,705

*Reported reserves only. Subsequent development relates only to subsequent payments and reserves.
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CONSOLIDATED ANNUAL STATEMENT FOR THE YEAR 1991 OF THE ALLSTATE INSURANCE COMPANY AND ITS AFFILIATED FIRE AND CASUALTY INSURERS
(Name)

SCHEDULE P - PART 3A - HOMEOWNERS/FARMOWNERS

1 Years in Which Losses Were Incurred		Cumulative Paid Losses and Allocated Expenses at Year End (000 omitted) 2 1982	3 1983	4 1984	5 1985	6 1986	7 1987	8 1988	9 1989	10 1990	11 1991	12 Number of Claims Closed With Loss Payment	13 Number of Claims Closed Without Loss Payment
1.	Prior	000	47,863	75,786	103,515	120,092	131,109	139,155	144,185	147,266	150,004	320	169
2.	1982	539,541	651,441	689,582	705,785	719,814	726,686	733,327	737,326	738,799	739,446	193	130
3.	1983	X X X X	645,433	710,762	734,957	754,700	776,576	788,765	798,329	801,634	804,812	413	144
4.	1984	X X X X	X X X X	578,088	731,054	766,626	790,276	806,633	815,141	820,656	825,442	678	310
5.	1985	X X X X	X X X X	X X X X	695,178	866,803	905,867	932,694	951,637	950,702	966,737	1,443	634
6.	1986	X X X X	X X X X	X X X X	X X X X	668,568	842,674	884,063	907,355	924,266	934,356	2,746	1,119
7.	1987	X X X X	X X X X	X X X X	X X X X	X X X X	764,622	979,261	1,021,922	1,053,064	1,072,302	4,612	1,809
8.	1988	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	923,747	1,164,362	1,213,268	1,244,353	92,181	21,066
9.	1989	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	1,132,109	1,496,301	1,654,948	938,146	256,282
10.	1990	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	1,170,640	1,617,764	853,048	273,826
11.	1991	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	1,366,867	840,932	262,983

SCHEDULE P - PART 3B - PRIVATE PASSENGER AUTO LIABILITY/MEDICAL

1.	Prior	000	505,710	790,680	949,666	1,039,805	1,096,316	1,123,883	1,145,342	1,160,201	1,186,497	24,257	5,511
2.	1982	642,380	1,165,397	1,414,120	1,561,658	1,639,103	1,679,202	1,701,920	1,712,467	1,719,650	1,723,823	21,561	4,467
3.	1983	X X X X	723,149	1,338,247	1,622,694	1,746,332	1,864,194	1,906,566	1,927,958	1,940,676	1,950,149	23,436	5,284
4.	1984	X X X X	X X X X	803,954	1,484,143	1,804,135	1,971,104	2,059,756	2,105,300	2,128,728	2,142,306	29,102	8,501
5.	1985	X X X X	X X X X	X X X X	848,948	1,654,126	2,009,297	2,200,285	2,301,085	2,358,827	2,392,251	37,506	10,474
6.	1986	X X X X	X X X X	X X X X	X X X X	1,025,879	1,943,747	2,346,895	2,568,192	2,695,162	2,763,664	53,995	12,445
7.	1987	X X X X	X X X X	X X X X	X X X X	X X X X	1,192,187	2,239,840	2,707,948	2,970,721	3,128,415	96,379	17,534
8.	1988	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	1,376,364	2,647,862	3,123,435	3,437,226	340,683	65,914
9.	1989	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	1,674,274	3,013,428	3,465,873	1,168,606	1,085,606
10.	1990	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	1,763,277	3,303,906	1,134,821	1,041,621
11.	1991	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	1,779,858	836,413	674,975

SCHEDULE P - PART 3C - COMMERCIAL AUTO/TRUCK LIABILITY/MEDICAL

1.	Prior	000	35,579	53,610	67,066	80,320	87,068	88,984	88,122	93,847	95,672	1,170	316
2.	1982	32,135	21,043	29,573	35,230	41,698	45,344	45,730	46,112	47,016	47,034	451	109
3.	1983	X X X X	33,447	28,094	40,613	51,062	57,178	62,187	64,902	66,373	66,726	620	137
4.	1984	X X X X	X X X X	22,685	49,762	74,669	85,451	95,392	102,061	105,800	108,098	821	284
5.	1985	X X X X	X X X X	X X X X	25,621	56,997	80,461	101,677	112,320	122,486	126,713	1,647	605
6.	1986	X X X X	X X X X	X X X X	X X X X	28,068	65,019	93,068	112,844	123,973	135,828	3,343	1,272
7.	1987	X X X X	X X X X	X X X X	X X X X	X X X X	32,760	74,183	105,704	131,626	152,689	6,580	1,976
8.	1988	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	33,810	79,128	125,677	140,883	12,877	6,200
9.	1989	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	37,683	85,434	130,632	30,904	22,293
10.	1990	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	40,630	96,948	27,837	20,230
11.	1991	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	40,476	18,036	15,284

SCHEDULE P - PART 3D - WORKERS' COMPENSATION

1.	Prior	000	16,330	30,493	43,167	53,486	62,120	69,213	76,624	81,666	86,232	810	337
2.	1982	8,368	15,927	20,062	23,258	25,868	26,490	27,914	28,060	29,163	29,520	67	91
3.	1983	X X X X	17,021	33,926	42,647	47,938	51,827	55,002	57,509	59,072	60,302	116	232
4.	1984	X X X X	[illegible] X X X	31,063	64,069	87,080	102,197	113,354	117,399	121,844	126,870	390	459
5.	1985	X X X X	X X X X	X X X X	39,671	79,801	104,401	129,279	140,835	148,267	153,366	745	1,180
6.	1986	X X X X	X X X X	X X X X	X X X X	43,742	95,023	133,807	153,659	165,853	173,988	1,637	2,781
7.	1987	X X X X	X X X X	X X X X	X X X X	X X X X	61,850	116,829	193,983	227,900	246,634	5,617	6,472
8.	1988	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	70,571	155,906	220,744	251,845	26,895	13,480
9.	1989	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	66,647	136,447	179,142	73,128	25,716
10.	1990	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	52,233	133,370	47,706	19,391
11.	1991	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	59,315	39,288	11,959

SCHEDULE P - PART 3E - COMMERCIAL MULTIPLE PERIL

1.	Prior	000	4,772	10,926	16,454	18,688	22,064	23,830	23,784	25,622	27,430	38	17
2.	1982	21,224	37,224	42,913	47,074	49,488	52,144	52,927	53,884	53,828	54,144	27	26
3.	1983	X X X X	25,457	45,724	52,140	56,859	61,406	63,992	66,557	70,413	72,476	42	34
4.	1984	X X X X	X X X X	40,742	65,163	74,889	81,236	85,852	91,099	93,467	97,069	174	109
5.	1985	X X X X	X X X X	X X X X	60,871	88,649	100,126	107,951	112,256	117,741	121,650	268	246
6.	1986	X X X X	X X X X	X X X X	X X X X	66,422	91,367	109,268	119,289	128,233	135,837	603	417
7.	1987	X X X X	X X X X	X X X X	X X X X	X X X X	74,300	112,937	124,990	137,837	149,409	1,347	894
8.	1988	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	99,049	138,456	154,746	169,836	9,720	6,595
9.	1989	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	123,227	196,936	219,386	57,944	35,059
10.	1990	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	136,102	203,762	59,380	34,116
11.	1991	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	X X X X	150,255	53,833	29,782

Note: Net of salvage and subrogation received.

CONSOLIDATED ANNUAL STATEMENT FOR THE YEAR 1991 OF THE ALLSTATE INSURANCE COMPANY AND ITS AFFILIATED FIRE AND CASUALTY INSURERS

(Name)

SCHEDULE P - PART 3F - MEDICAL MALPRACTICE

	1 Years in Which Losses Were Incurred	Cumulative Paid Losses and Allocated Expenses at Year End (000 omitted) 2 1982	3 1983	4 1984	5 1985	6 1986	7 1987	8 1988	9 1989	10 1990	11 1991	12 Number of Claims Closed With Loss Payment	13 Number of Claims Closed Without Loss Payment
1.	Prior	000	9,471	16,309	24,610	33,140	39,809	47,412	55,316	62,104	68,022	57	(11)
2.	1982	8	397	1,016	1,343	1,844	3,962	4,360	4,478	6,062	6,431	66	61
3.	1983	XXXX	62	514	1,856	4,396	6,736	8,064	11,050	12,899	14,333	161	96
4.	1984	XXXX	XXXX	44	603	1,802	2,624	4,279	5,288	6,476	7,988	94	76
5.	1985	XXXX	XXXX	XXXX	35	21	142	445	473	841	690	6	7
6.	1986	XXXX	XXXX	XXXX	XXXX								2
7.	1987	XXXX	XXXX	XXXX	XXXX	XXXX						1	6
8.	1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX						
9.	1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX				1	3
10.	1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX				
11.	1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX			

SCHEDULE P - PART 3G - SPECIAL LIABILITY (OCEAN MARINE, AIRCRAFT (ALL PERILS), BOILER AND MACHINERY)

1.	Prior	000	21,905	31,232	34,866	43,393	46,851	46,026	47,485	48,652	48,650	XXXX	XXXX
2.	1982	4,397	16,351	22,520	25,681	26,735	31,695	32,610	33,283	33,404	32,885	XXXX	XXXX
3.	1983	XXXX	6,558	17,372	21,587	27,852	28,756	30,133	31,731	31,960	32,089	XXXX	XXXX
4.	1984	XXXX	XXXX	5,646	12,622	18,605	20,719	23,764	24,584	25,433	26,239	XXXX	XXXX
5.	1985	XXXX	XXXX	XXXX	3,647	8,790	11,867	14,447	15,774	16,432	16,915	XXXX	XXXX
6.	1986	XXXX	XXXX	XXXX	XXXX	6,430	10,684	14,738	16,638	17,633	18,334	XXXX	XXXX
7.	1987	XXXX	XXXX	XXXX	XXXX	XXXX	6,133	13,701	20,545	25,064	27,077	XXXX	XXXX
8.	1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	6,265	13,133	19,525	21,840	XXXX	XXXX
9.	1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	6,864	12,610	19,023	XXXX	XXXX
10.	1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	4,990	9,167	XXXX	XXXX
11.	1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	6,223	XXXX	XXXX

SCHEDULE P - PART 3H - OTHER LIABILITY

1.	Prior	000	67,125	121,715	151,658	183,969	216,765	257,145	292,546	307,684	334,681	657	424
2.	1982	14,865	21,965	27,130	30,667	39,491	45,972	56,201	59,903	64,617	66,587	161	324
3.	1983	XXXX	18,924	26,824	30,329	47,099	54,553	63,206	69,832	76,192	83,201	207	67
4.	1984	XXXX	XXXX	15,823	25,467	39,164	46,791	55,040	61,360	66,059	71,802	164	144
5.	1985	XXXX	XXXX	XXXX	14,611	24,435	33,549	43,304	48,309	51,759	54,716	188	142
6.	1986	XXXX	XXXX	XXXX	XXXX	16,102	31,994	45,461	54,025	63,753	68,383	501	375
7.	1987	XXXX	XXXX	XXXX	XXXX	XXXX	22,780	38,452	51,678	61,964	71,643	1,437	770
8.	1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	26,342	47,760	56,693	72,732	4,765	4,022
9.	1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	31,554	24,259	45,405	11,195	19,254
10.	1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	7,572	23,400	8,964	15,928
11.	1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	7,688	5,767	12,068

SCHEDULE P - PART 3I - SPECIAL PROPERTY (FIRE, ALLIED LINES, INLAND MARINE, EARTHQUAKE, GLASS, BURGLARY AND THEFT)

1.	Prior	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	000	145,771	185,681	XXXX	XXXX
2.	1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	149,106	257,287	XXXX	XXXX
3.	1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	174,954	XXXX	XXXX

SCHEDULE P - PART 3J - AUTO PHYSICAL DAMAGE

1.	Prior	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	000	142,788	107,000	2,711,025	742,899
2.	1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	2,316,497	2,428,641	2,307,856	628,355
3.	1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	2,262,964	2,116,287	544,023

SCHEDULE P - PART 3K - FIDELITY, SURETY, FINANCIAL GUARANTY, MORTGAGE GUARANTY

1.	Prior	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	000	67,287	89,384	XXXX	XXXX
2.	1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	9,869	41,799	XXXX	XXXX
3.	1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	9,522	XXXX	XXXX

Note: Net of salvage and subrogation received.

CONSOLIDATED ANNUAL STATEMENT FOR THE YEAR 1991 OF THE ALLSTATE INSURANCE COMPANY AND ITS AFFILIATED FIRE AND CASUALTY INSURERS

(Name)

SCHEDULE P - PART 3L - OTHER (INCLUDING CREDIT, ACCIDENT AND HEALTH)

1 Years in Which Losses Were Incurred	Cumulative Paid Losses and Allocated Expenses at Year End (000 omitted) 2 1982	3 1983	4 1984	5 1985	6 1986	7 1987	8 1988	9 1989	10 1990	11 1991	12 Number of Claims Closed With Loss Payment	13 Number of Claims Closed Without Loss Payment
1. Prior	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	000	231	572	XXXX	XXXX
2. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	111	210	XXXX	XXXX
3. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	326	XXXX	XXXX

SCHEDULE P - PART 3H - INTERNATIONAL

NONE

1. Prior	000										XXXX	XXXX
2. 1982											XXXX	XXXX
3. 1983	XXXX										XXXX	XXXX
4. 1984	XXXX	XXXX									XXXX	XXXX
5. 1985	XXXX	XXXX	XXXX								XXXX	XXXX
6. 1986	XXXX	XXXX	XXXX	XXXX							XXXX	XXXX
7. 1987	XXXX	XXXX	XXXX	XXXX	XXXX						XXXX	XXXX
8. 1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX					XXXX	XXXX
9. 1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX				XXXX	XXXX
10. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX			XXXX	XXXX
11. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX		XXXX	XXXX

SCHEDULE P - PART 3N - REINSURANCE A

1. 1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	2,920	7,857	10,434	10,698	XXXX	XXXX
2. 1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	16,360	20,707	21,565	XXXX	XXXX
3. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	20,208	41,267	XXXX	XXXX
4. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	3,290	XXXX	XXXX

SCHEDULE P - PART 3O - REINSURANCE B

1. 1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	595	2,015	3,700	4,645	XXXX	XXXX
2. 1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	917	4,970	8,784	XXXX	XXXX
3. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	2,107	10,021	XXXX	XXXX
4. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	2,511	XXXX	XXXX

SCHEDULE P - PART 3P - REINSURANCE C

1. 1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	1,096	6,785	11,349	13,377	XXXX	XXXX
2. 1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	900	2,171	2,343	XXXX	XXXX
3. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	4,439	8,788	XXXX	XXXX
4. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	1,261	XXXX	XXXX

SCHEDULE P - PART 3Q - REINSURANCE D

NONE

1. Prior	000										XXXX	XXXX
2. 1982											XXXX	XXXX
3. 1983	XXXX										XXXX	XXXX
4. 1984	XXXX	XXXX									XXXX	XXXX
5. 1985	XXXX	XXXX	XXXX								XXXX	XXXX
6. 1986	XXXX	XXXX	XXXX	XXXX							XXXX	XXXX
7. 1987	XXXX	XXXX	XXXX	XXXX							XXXX	XXXX

SCHEDULE P - PART 3R - PRODUCTS LIABILITY

1. Prior	000	11,454	31,610	47,185	110,901	161,127	216,395	276,208	340,764	383,211	287	595
2. 1982	219	599	2,547	6,474	10,364	17,756	21,171	30,360	36,072	37,771	75	361
3. 1983	XXXX	375	1,234	2,990	6,851	13,674	18,276	21,445	26,334	28,915	82	354
4. 1984	XXXX	XXXX	683	1,581	5,343	8,914	16,168	18,516	25,285	28,431	106	227
5. 1985	XXXX	XXXX	XXXX	411	4,015	6,815	12,123	14,360	17,451	20,248	197	221
6. 1986	XXXX	XXXX	XXXX	XXXX	1,680	5,357	8,293	13,787	16,337	21,622	111	274
7. 1987	XXXX	XXXX	XXXX	XXXX	XXXX	1,383	3,416	6,774	11,272	16,358	147	651
8. 1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	1,501	3,919	8,837	17,460	1,165	1,032
9. 1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	1,701	5,726	10,617	2,226	3,467
10. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	1,376	4,008	1,140	2,008
11. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	1,069	451	844

Note: Net of salvage and subrogation received.

SCHEDULE P - PART 4 - LOSS PORTFOLIO TRANSFERS

Portfolio reinsurance ceded or assumed during the current year in which premiums were already earned
(000 omitted)

1 Years In Which Premiums Were Earned and Losses Were Incurred	Premiums Earned: 2 Assumed	3 Ceded	4 Net (2 − 3)	Loss and Loss Expense Payments: Loss Payments: 5 Assumed	6 Ceded	Allocated Loss Expense Payments: 7 Assumed	8 Ceded	9 Salvage and Subrogation Received	10 Unallocated Loss Expense Payments	11 Total Net Paid (5 − 6 + 7 − 8 + 10)	12 Number of Claims Reported — Assumed
1. Prior	XXXX	XXXX	XXXX								XXXX
2. 1982											XXXX
3. 1983											XXXX
4. 1984											XXXX
5. 1985											XXXX
6. 1986											XXXX
7. 1987											XXXX
8. 1988											XXXX
9. 1989											XXXX
10. 1990											XXXX
11. 1991											XXXX
12. Totals	XXXX	XXXX	XXXX								XXXX

Note: For "prior," report amounts paid or received in current year only.
Report cumulative amounts paid or received for specific years. Report loss payments net of salvage and subrogation received.

NONE

Years In Which Premiums Were Earned and Losses Were Incurred	Losses Unpaid: Case Basis: 13 Assumed	14 Ceded	Bulk + IBNR: 15 Assumed	16 Ceded	Allocated Loss Expenses Unpaid: Case Basis: 17 Assumed	18 Ceded	Bulk + IBNR: 19 Assumed	20 Ceded	21 Unallocated Loss Expenses Unpaid	22 Total Net Losses and Expenses Unpaid	23 Number of Claims Outstanding — Assumed
1. Prior											XXXX
2. 1982											XXXX
3. 1983											XXXX
4. 1984											XXXX
5. 1985											XXXX
6. 1986											XXXX
7. 1987											XXXX
8. 1988											XXXX
9. 1989											XXXX
10. 1990											XXXX
11. 1991											XXXX
12. Totals											XXXX

Years In Which Premiums Were Earned and Losses Were Incurred	Total Losses and Loss Expenses Incurred: 24 Assumed	25 Ceded	26 Net *	Loss and Loss Expense Percentage (Incurred/Premiums Earned): 27 Assumed	28 Ceded	29 Net	Discount for Time Value of Money: 30 Loss	31 Loss Expense	32 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount: 33 Losses Unpaid	34 Loss Expenses Unpaid
1. Prior	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX			XXXX		
2. 1982											
3. 1983											
4. 1984											
5. 1985											
6. 1986											
7. 1987											
8. 1988											
9. 1989											
10. 1990											
11. 1991											
12. Totals	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX			XXXX		

*Net = (24 − 25) = (11 + 22)

Note: Report all loss portfolio transfers, ceded or assumed, included in Schedule P and effected during the current year only, showing the status of the reserves and payments as of year end. Show the consideration paid for losses ceded or consideration received for losses assumed in the premiums earned (ceded or assumed, respectively) columns regardless of how the transaction was actually reported on Pages 2, 3, and 4.

SCHEDULE P - PART 5 CLAIMS - MADE
(000 omitted)

PART 5E - COMMERCIAL MULTIPLE PERIL

NOT REQUIRED

1 Years in Which Premiums Were Earned and Losses Were Incurred	2 Premiums Earned — Direct and Assumed	3 Loss Payments — Direct and Assumed	4 Allocated Loss Expense Payments — Direct and Assumed	5 Salvage and Subrogation Received	6 Unallocated Loss Expense Payments	Losses Unpaid: 7 Case Basis — Direct and Assumed	Losses Unpaid: 8 Bulk — Direct and Assumed	9 Extended Loss and Expense Reserve — Direct and Assumed	10 Allocated Loss Expense Reserve — Direct and Assumed	11 Unallocated Loss Expense Reserve	12 Total Losses and Loss Expenses Incurred (3+4+6+7+8+9+10+11)	13 Percent 12/2	14 Cumulative Number of Claims Closed With Payments	15 Cumulative Number of Claims Closed Without Payments	16 Number of Claims Outstanding
1. 1987															
2. 1988															
3. 1989															
4. 1990															
5. 1991															
6. Total															

PART 5F - MEDICAL MALPRACTICE

NONE

1. 1987															
2. 1988															
3. 1989															
4. 1990															
5. 1991															
6. Total															

PART 5H - OTHER LIABILITY

NOT REQUIRED

1. 1987															
2. 1988															
3. 1989															
4. 1990															
5. 1991															
6. Total															

PART 5R - PRODUCTS LIABILITY

NONE

1. 1987															
2. 1988															
3. 1989															
4. 1990															
5. 1991															
6. Total															

Notes: (1) Report loss payments (Column 3) net of salvage and subrogation received (Column 5).
(2) An example of an extended loss and expense reserve is the actuarial reserve for the free tail coverage arising upon death, disability, or retirement in most medical malpractice policies. Such a liability is to be reported here even if it was not reported elsewhere in Schedule P, but otherwise reported as a liability item on Page 3. For each report year, enter the annual change in such liability.

CONSOLIDATED ANNUAL STATEMENT FOR THE YEAR 1991 OF THE ALLSTATE INSURANCE COMPANY AND ITS AFFILIATED FIRE AND CASUALTY INSURERS

(Name)

SCHEDULE P - PART 6A - HOMEOWNERS/FARMOWNERS

1 Years in Which Losses Were Incurred	BULK AND INCURRED BUT NOT REPORTED RESERVES ON LOSSES AND ALLOCATED EXPENSES AT YEAR END (000 OMITTED)									
	2 1982	3 1983	4 1984	5 1985	6 1986	7 1987	8 1988	9 1989	10 1990	11 1991
1. Prior	21,595	9,986	8,322	3,445	2,330	1,786	7	20		
2. 1982	58,765	14,470	5,946	4,737	3,164	2,480	1,506	41	2	
3. 1983	XXXX	87,412	17,044	10,374	6,664	4,471	2,602	1,195	656	3
4. 1984	XXXX	XXXX	88,308	16,321	9,303	6,800	5,147	1,714	1,698	3,374
5. 1985	XXXX	XXXX	XXXX	113,764	18,395	11,983	7,926	6,996	4,915	5,631
6. 1986	XXXX	XXXX	XXXX	XXXX	132,098	23,777	14,098	11,133	11,314	7,489
7. 1987	XXXX	XXXX	XXXX	XXXX	XXXX	135,026	33,007	22,741	20,086	17,338
8. 1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	152,940	51,320	38,848	17,687
9. 1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	145,304	78,762	39,242
10. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	188,395	73,466
11. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	197,706

SCHEDULE P - PART 6B - PRIVATE PASSENGER AUTO LIABILITY/MEDICAL

1. Prior	85,721	35,034	22,869	23,919	23,958	15,329	8,961	4,615	4,414	1,430
2. 1982	214,934	43,871	20,997	10,847	11,820	6,673	7,826	1,421	1,140	387
3. 1983	XXXX	221,761	48,850	19,185	13,169	6,831	6,596	2,961	2,511	883
4. 1984	XXXX	XXXX	216,072	43,284	24,264	13,304	8,226	3,959	2,465	5,376
5. 1985	XXXX	XXXX	XXXX	223,091	47,787	29,330	36,034	6,616	3,066	2,380
6. 1986	XXXX	XXXX	XXXX	XXXX	310,925	82,924	40,057	17,677	6,747	5,397
7. 1987	XXXX	XXXX	XXXX	XXXX	XXXX	342,917	100,142	42,252	16,308	10,800
8. 1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	439,770	130,840	55,290	32,110
9. 1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	475,761	146,370	72,000
10. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	607,973	207,683
11. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	846,343

SCHEDULE P - PART 6C - COMMERCIAL AUTO/TRUCK LIABILITY/MEDICAL

1. Prior	18,374	6,162	2,874	6,048	3,174	1,331	3,069	1,610	1,444	480
2. 1982	12,190	4,622	2,321	2,379	2,843	1,077	1,296	491	370	121
3. 1983	XXXX	11,048	4,346	3,746	3,438	1,928	1,620	856	878	230
4. 1984	XXXX	XXXX	13,122	5,606	4,371	2,076	1,656	851	871	358
5. 1985	XXXX	XXXX	XXXX	20,777	6,626	4,894	2,489	1,032	1,231	441
6. 1986	XXXX	XXXX	XXXX	XXXX	20,425	12,721	7,842	4,299	1,443	652
7. 1987	XXXX	XXXX	XXXX	XXXX	XXXX	37,812	16,864	9,646	3,184	1,643
8. 1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	45,634	30,971	7,623	3,385
9. 1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	61,002	35,646	7,533
10. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	53,992	20,692
11. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	61,638

SCHEDULE P - PART 6D - WORKERS' COMPENSATION

1. Prior	33,470	23,394	13,012	13,243	12,345	11,574	13,138	11,045	14,488	15,501
2. 1982	9,939	2,413	1,961	1,453	1,287	1,056	1,995	1,918	2,801	2,515
3. 1983	XXXX	10,349	4,757	2,711	2,367	1,766	2,252	2,066	2,399	1,852
4. 1984	XXXX	XXXX	20,445	10,973	9,436	9,985	5,080	2,460	1,904	2,698
5. 1985	XXXX	XXXX	XXXX	33,733	28,329	19,482	13,211	7,794	4,230	4,375
6. 1986	XXXX	XXXX	XXXX	XXXX	55,561	40,035	21,152	12,870	5,494	6,986
7. 1987	XXXX	XXXX	XXXX	XXXX	XXXX	92,640	54,150	31,602	17,958	14,761
8. 1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	127,737	60,179	27,763	15,280
9. 1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	136,172	62,298	20,543
10. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	100,459	62,543
11. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	132,836

SCHEDULE P - PART 6E - COMMERCIAL MULTIPLE PERIL

1. Prior	19,193	4,067	1,903	846	394	896	180	26		
2. 1982	17,804	8,320	2,362	848	1,118	1,660	456	272	2	
3. 1983	XXXX	35,843	7,113	3,102	2,811	3,180	1,101	891	2,147	32
4. 1984	XXXX	XXXX	26,550	7,840	3,428	3,013	1,654	1,979	2,093	4,548
5. 1985	XXXX	XXXX	XXXX	26,248	6,536	6,418	2,834	3,486	3,216	3,757
6. 1986	XXXX	XXXX	XXXX	XXXX	29,249	15,718	4,625	8,624	6,406	6,574
7. 1987	XXXX	XXXX	XXXX	XXXX	XXXX	44,345	24,635	11,408	9,384	9,645
8. 1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	54,422	22,470	18,127	13,809
9. 1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	50,020	35,631	23,392
10. 1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	74,966	42,791
11. 1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	80,804

CONSOLIDATED ANNUAL STATEMENT FOR THE YEAR 1991 OF THE ALLSTATE INSURANCE COMPANY AND ITS AFFILIATED FIRE AND CASUALTY INSURERS
(Name)

SCHEDULE P - PART 6F - MEDICAL MALPRACTICE

	1 Years In Which Losses Were Incurred	BULK AND INCURRED BUT NOT REPORTED RESERVES ON LOSSES AND ALLOCATED EXPENSES AT YEAR END (000 OMITTED)									
		2 1982	3 1983	4 1984	5 1985	6 1986	7 1987	8 1988	9 1989	10 1990	11 1991
1.	Prior	51,660	42,956	32,839	20,947	16,609	14,241	3,791	16,997	23,627	22,622
2.	1982	1,223	1,323	1,265	1,407	1,811	6,326	3,817	4,264	3,718	3,376
3.	1983	XXXX	4,363	3,053	2,490	2,304	5,739	7,145	7,624	6,465	7,414
4.	1984	XXXX	XXXX	2,909	2,655	2,766	4,201	6,402	5,908	4,129	4,827
5.	1985	XXXX	XXXX	XXXX	1,004	1,448	1,982	2,512	1,306	907	874
6.	1986	XXXX	XXXX	XXXX	XXXX	1,846	1,446	1,437			
7.	1987	XXXX	XXXX	XXXX	XXXX	XXXX	623	483	491		
8.	1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	100	213		
9.	1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	7	1	2
10.	1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX		
11.	1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	

SCHEDULE P - PART 6G - SPECIAL LIABILITY (OCEAN MARINE, AIRCRAFT (ALL PERILS), BOILER AND MACHINERY)

1.	Prior	19,224	8,335	4,486	802	584	307	1,550	955	323	112
2.	1982	5,342	6,912	4,462	2,315	816	241	1,154	1,072	585	356
3.	1983	XXXX	9,347	8,732	6,246	2,022	1,663	2,455	1,471	1,325	947
4.	1984	XXXX	XXXX	8,303	9,476	4,320	2,921	3,737	1,131	1,534	673
5.	1985	XXXX	XXXX	XXXX	16,847	6,645	6,233	2,737	1,021	720	563
6.	1986	XXXX	XXXX	XXXX	XXXX	14,043	10,417	5,653	3,806	1,636	1,336
7.	1987	XXXX	XXXX	XXXX	XXXX	XXXX	19,430	5,301	2,604	1,700	2,349
8.	1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	1,121	2,926	1,167	1,189
9.	1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	970	1,292	726
10.	1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	869	1,770
11.	1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	472

SCHEDULE P - PART 6H - OTHER LIABILITY

1.	Prior	187,234	145,969	92,868	37,856	31,056	142,981	122,580	61,060	64,940	115,770
2.	1982	36,067	35,742	24,600	32,419	22,506	39,703	24,239	12,832	33,985	15,442
3.	1983	XXXX	32,075	25,963	16,700	22,607	29,944	21,366	18,695	18,887	17,066
4.	1984	XXXX	XXXX	32,684	16,843	20,200	28,829	37,851	18,820	16,768	30,433
5.	1985	XXXX	XXXX	XXXX	31,685	22,797	31,145	15,415	33,604	12,000	31,670
6.	1986	XXXX	XXXX	XXXX	XXXX	30,095	35,472	28,242	37,399	13,304	30,948
7.	1987	XXXX	XXXX	XXXX	XXXX	XXXX	41,440	41,408	24,547	20,965	34,636
8.	1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	43,747	31,622	25,481	21,654
9.	1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	36,012	33,365	21,943
10.	1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	45,090	27,364
11.	1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	43,464

SCHEDULE P - PART 6I - SPECIAL PROPERTY (FIRE, ALLIED LINES, INLAND MARINE, EARTHQUAKE, GLASS, BURGLARY AND THEFT)

1.	Prior	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	28,086	7,955	7,294
2.	1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	17,486	3,954
3.	1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	15,485

SCHEDULE P - PART 6J - AUTO PHYSICAL DAMAGE

1.	Prior	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	71,914	31,494	12,651
2.	1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	63,433	16,662
3.	1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	65,264

SCHEDULE P - PART 6K - FIDELITY, SURETY, FINANCIAL GUARANTY, MORTGAGE GUARANTY

1.	Prior	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	34,868	26,956	18,494
2.	1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	6,476	4,053
3.	1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	7,891

SCHEDULE P - PART 6L - OTHER (INCLUDING CREDIT, ACCIDENT AND HEALTH)

1 Years in Which Losses Were Incurred		BULK AND INCURRED BUT NOT REPORTED RESERVES ON LOSSES AND ALLOCATED EXPENSES AT YEAR END (000 OMITTED)									
		2 1982	3 1983	4 1984	5 1985	6 1986	7 1987	8 1988	9 1989	10 1990	11 1991
1.	Prior	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	16	2	2
2	1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	33	1
3.	1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	11

SCHEDULE P - PART 6M - INTERNATIONAL

1.	Prior										
2.	1982										
3.	1983	XXXX									
4.	1984	XXXX	XXXX								
5.	1985	XXXX	XXXX	XXXX							
6.	1986	XXXX	XXXX	XXXX	X						
7.	1987	XXXX	XXXX	XXXX	X	X					
8.	1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX				
9.	1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX			
10.	1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX		
11.	1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	

NONE

SCHEDULE P - PART 6N - REINSURANCE A

1.	1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	8,565	1,659	4,947	812
2.	1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	4,340	682	750
3.	1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	31,165	4,860
4.	1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	5,021

SCHEDULE P - PART 6O - REINSURANCE B

1.	1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	29,095	25,271	12,480	11,319
2.	1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	20,789	19,227	11,066
3.	1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	19,084	11,830
4.	1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	25,363

SCHEDULE P - PART 6P - REINSURANCE C

1.	1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	9,259	4,671	6,376	4,716
2.	1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	6,055	6,084	3,432
3.	1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	3,363	6,977
4.	1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	8,424

SCHEDULE P - PART 6Q - REINSURANCE D

1.	Prior										
2.	1982										
3.	1983	XXXX									
4.	1984	XXXX	XXXX								
5.	1985	XXXX	XXXX	XXXX							
6.	1986	XXXX	XXXX	XXXX	X						
7.	1987	XXXX	XXXX	XXXX	XXXX	XXXX					

NONE

SCHEDULE P - PART 6R - PRODUCTS LIABILITY

1.	Prior	58,829	53,644	29,676	29,477	119,166	68,451	153,435	194,604	175,608	198,046
2.	1982	7,655	5,638	2,835	4,136	9,558	16,841	18,748	11,789	11,004	12,606
3.	1983	XXXX	5,045	3,709	4,067	7,661	14,185	10,494	11,290	9,424	7,310
4.	1984	XXXX	XXXX	6,277	9,256	8,784	10,877	10,836	11,072	10,209	8,650
5.	1985	XXXX	XXXX	XXXX	9,104	8,400	4,014	2,657	3,362	2,371	2,012
6.	1986	XXXX	XXXX	XXXX	XXXX	15,612	10,797	6,504	2,923	3,108	2,499
7.	1987	XXXX	XXXX	XXXX	XXXX	XXXX	14,139	14,606	2,744	8,628	4,643
8.	1988	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	21,817	11,823	10,062	8,304
9.	1989	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	19,461	15,024	9,517
10.	1990	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	24,185	15,891
11.	1991	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	XXXX	20,972

CONSOLIDATED ANNUAL STATEMENT FOR THE YEAR 1991 OF THE ALLSTATE INSURANCE COMPANY AND ITS AFFILIATED FIRE AND CASUALTY INSURERS
(Name)

SCHEDULE P INTERROGATORIES

1. Computation of excess statutory reserves over statement reserves. See Instructions for explanation and formulas.

(a) Auto Liability (private passenger and commercial)

1991	$0 (	75.0%)	1990	$0 (	75.0%)	
1989	$0 (	75.0%)			Total	$0

(b) Other Liability and Products Liability

1991	$0 (	75.0%)	1990	$0 (	75.0%)	
1989	$0 (	75.0%)			Total	$0

(c) Medical Malpractice

1991	$0 (	75.0%)	1990	$0 (	75.0%)	
1989	$0 (	75.0%)			Total	$0

(d) Workers' Compensation

1991	$0 (	65.0%)	1990	$0 (	65.0%)	
1989	$0 (	65.0%)			Total	$0

(e) Credit — Total $2,607,579

(f) All Lines Total (Report here and Page 3) — Total $2,607,579

2. Claims-made policies; Schedule P — Part 5.

State the amount of current year premiums earned on claims-made policies. If this amount is more than $100,000 and greater than 15% of current year premiums earned in that line, then you must complete Schedule P — Part 5; see instructions.

(a) Commercial Multiple Peril	(i) claims-made premiums	$168,202
	(ii) Part 5 required	Yes [ ] No [X]
(b) Medical Malpractice	(i) claims-made premiums	$0
	(ii) Part 5 required	Yes [ ] No [X]
(c) Other Liability	(i) claims-made premiums	$10,991
	(ii) Part 5 required	Yes [ ] No [X]
(d) Products Liability	(i) claims made premiums	$0
	(ii) Part 5 required	Yes [ ] No [X]

3. The term "loss expense" includes all payments for legal expenses, including attorney's and witness fees and court costs, salaries and expenses of investigators, adjusters and field men, rents, stationery, telegraph and telephone charges, postage, salaries and expenses of office employees, home office expenses and all other payments under or on account of such injuries, whether the payments are allocated to specific claims or are unallocated. Are they so reported in this statement? Answer: Yes [X] No [ ]

4. The unallocated loss expense payments paid during the most recent calendar year should be distributed to the various years in which losses were incurred as follows: (1) 45% to the most recent year, (2) 5% to the next most recent year, and (3) the balance to all years, including the most recent, in proportion to the amount of loss payments paid for each year during the most recent calendar year. If the distribution in (1) or (2) produces an accumulated distribution to such year in excess of 10% of the premiums earned for such year, disregarding all distributions made under (3), such accumulated distribution should be limited to 10% of premiums earned and the balance distributed in accordance with (3). Are they so reported in this Statement? Answer: Yes [X] No [ ]

5. Do any lines in Schedule P include reserves which are reported gross of any discount to present value of future payments, but are reported net of such discounts on page 10? Yes [ ] No [X]

If yes, proper reporting must be made in the Notes to Financial Statements, as specified in the Instructions. Also, the discounts must be reported in Schedule P — Part 1, columns 30 and 31.

Schedule P must be completed gross of non-tabular discounting. Work papers relating to discount calculations must be available for examination upon request.

Discounting is allowed only if expressly permitted by the state insurance department to which this Annual Statement is being filed.

6. What were the net premiums in force at the end of the year for:
(in thousands of dollars)

(a) Fidelity ($53)

(b) Surety $41,713

7. Claim count information is reported (check one)
If not the same in all years, explain in question 8.

(a) per claim X

(b) per claimant

8. The information provided in Schedule P will be used by many persons to estimate the adequacy of the current loss and expense reserves, among other things. Are there any especially significant events, coverage, retention or accounting changes which have occurred which must be considered when making such analyses (An extended statement may be attached)? NO.

Exhibit 8 - MOAC

91 19 6169

AUG 1 6 1991

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

PROCESSED BY
29/26
AUG 15 1991
DISCLOSURE
INCORPORATED

FORM 10-Q

_X_ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1991

C3A

OR

___ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-416

S E A R S, R O E B U C K A N D C O.
(Exact name of registrant as specified in its charter)

New York	36-1750680
(State of Incorporation)	(I.R.S. Employer Identification No.)

Sears Tower, Chicago, Illinois	60684
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 312/875-2500

Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes__x__ No_____

As of July 31, 1991, the Registrant had 343,963,928 common shares, $.75 par value, outstanding.

29 pages
Exhibit Index on page 26

Exhibit
8-MOAC

Sears, Roebuck and Co.
Index to Quarterly Report on Form 10-Q
June 30, 1991

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
SEARS, ROEBUCK AND CO.
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30 (Unaudited)		Six Months Ended June 30 (Unaudited)	
(millions, except per share data)	1991	1990	1991	1990
Operating revenues				
Sears Merchandise Group	$ 7,650.3	$ 7,875.6	$ 14,276.5	$ 14,715.7
Allstate Insurance Group	4,809.4	4,530.4	9,592.4	8,922.5
Dean Witter Financial Services Group	1,217.4	1,150.8	2,406.6	2,246.8
Coldwell Banker Real Estate Group	437.7	357.9	759.0	677.5
Corporate	50.6	31.9	101.9	61.5
Intergroup transactions	(75.4)	(94.9)	(162.6)	(166.5)
Total operating revenues	14,090.0	13,851.7	26,973.8	26,457.5
Operating expenses				
Costs and expenses	12,937.8	12,793.8	24,875.4	24,559.8
Interest	790.1	838.4	1,624.3	1,656.5
Total operating expenses	13,727.9	13,632.2	26,499.7	26,216.3
Operating income	362.1	219.5	474.1	241.2
Other income (loss)	(18.7)	24.7	66.9	11.4
Income from continuing operations before income taxes, minority interest and equity in net income of unconsolidated companies	343.4	244.2	541.0	252.6
Income taxes (benefit)				
Current operations	42.0	7.6	7.9	(74.8)
Deferred tax asset adjustment	64.1	-	102.6	-
Minority interest and equity in net income of unconsolidated companies	2.0	1.3	11.5	6.3
Income from continuing operations	239.3	237.9	442.0	333.7
Discontinued operations- gain on disposal, net of tax expense of $5.5	-	-	-	10.5
Net income	$ 239.3	$ 237.9	$ 442.0	$ 344.2
Net income consists of:				
Group income (loss):				
Sears Merchandise Group	$ 156.9	$ 110.0	$ 142.8	$ 72.6
Allstate Insurance Group	75.7	142.2	250.8	335.4
Dean Witter Financial Services Group	90.6	58.2	168.7	118.9
Coldwell Banker Real Estate Group	(3.1)	7.3	37.9	(26.2)
Corporate and other	(80.8)	(79.8)	(158.2)	(156.5)
Net income	$ 239.3	$ 237.9	$ 442.0	$ 344.2
Net income per share:				
Income from continuing operations	$ 0.70	$ 0.69	$ 1.29	$ 0.97
Discontinued operations	-	-	-	0.03
Net income	$ 0.70	$ 0.69	$ 1.29	$ 1.00
Cash dividends per share	$ .50	$ .50	$ 1.00	$ 1.00
Average shares outstanding	343.8	343.0	343.6	342.9

See accompanying notes and related Summarized Statements of Income of Business Groups.

003

SEARS, ROEBUCK AND CO.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(millions)	June 30 (Unaudited) 1991	June 30 (Unaudited) 1990	December 31 1990
Assets			
Investments			
Bonds, mortgage-backed securities and redeemable preferred stocks, at amortized cost (market $28,256.1, $24,473.0 and $26,749.9)	$ 27,511.8	$ 24,116.8	$ 26,292.3
Mortgage loans	9,166.0	6,353.9	7,209.3
Common and preferred stocks, at market (cost $2,592.9, $2,235.2 and $2,433.7)	2,757.1	2,452.3	2,386.3
Real estate	2,750.2	2,450.6	2,787.2
Total investments	42,185.1	35,373.6	38,675.1
Receivables			
Retail customer	13,462.6	14,459.3	15,230.4
Discover Card	8,552.6	7,879.9	8,610.6
Brokerage	3,076.5	3,332.0	3,842.5
Insurance premium installments	1,811.7	1,690.8	1,726.3
Consumer finance notes	1,250.0	1,427.9	1,467.2
Other	3,080.4	2,254.3	2,939.0
Total receivables	31,233.8	31,044.2	33,816.0
Property and equipment, net	5,958.9	5,555.2	5,850.4
Cash and invested cash	4,486.4	2,696.2	3,967.3
Merchandise inventories	4,347.5	4,423.3	4,074.0
Securities purchased under agreements to resell	2,985.2	3,294.1	2,269.5
Trading account securities, at market	1,262.9	1,271.5	1,181.0
Cash segregated under government regulations	1,143.2	1,010.2	1,250.1
Deferred income taxes	499.7	-	581.6
Other assets	4,930.4	4,510.2	4,587.8
Total assets	$ 99,033.1	$ 89,178.5	$ 96,252.8
Liabilities			
Insurance reserves	$ 28,364.2	$ 23,273.1	$ 25,750.2
Short-term borrowings	14,316.2	14,515.8	15,314.0
Long-term debt	13,514.9	10,634.2	12,636.4
Deposits and advances	8,119.9	6,758.4	7,882.9
Accounts payable and other liabilities	7,507.3	6,841.7	7,882.3
Unearned revenues	6,208.2	6,010.0	6,227.8
Brokerage payables	3,736.5	3,761.7	4,579.1
Securities sold under agreements to repurchase	3,469.7	3,684.1	2,656.2
Securities sold but not yet purchased, at market	693.1	634.4	500.1
Deferred income taxes	-	117.3	-
Total liabilities	85,930.0	76,230.7	83,429.0
Shareholders' equity			
Common shares ($.75 par value)	289.4	289.1	289.1
Capital in excess of par value	2,143.3	2,137.9	2,137.9
Retained income (Note 2)	13,025.3	12,712.4	12,927.1
Treasury stock (at cost)	(1,747.1)	(1,765.8)	(1,765.8)
Deferred ESOP expense	(755.3)	(593.5)	(777.7)
Unrealized net capital gains (losses) on marketable equity securities	118.3	149.9	(12.9)
Cumulative translation adjustments	29.2	17.8	26.1
Total shareholders' equity	13,103.1	12,947.8	12,823.8
Total liabilities and shareholders' equity	$ 99,033.1	$ 89,178.5	$ 96,252.8
Total shares outstanding	344.0	343.1	343.1

ن94

See accompanying notes and related Summarized Statements of Income of Business Groups. The Consolidated Statement of Financial Position at December 31, 1990 has been taken from the audited Consolidated Financial Statements of that date.

SEARS, ROEBUCK AND CO.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions)	Six Months Ended June 30 (Unaudited) 1991	1990
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 442.0	$ 344.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other noncash items	462.0	420.6
Provisions for uncollectible accounts	617.9	448.3
Gains on sale of property and investments	(128.2)	(193.4)
Increase in insurance reserves	2,614.0	2,425.9
Change in deferred taxes	10.7	(263.3)
Decrease in retail customer receivables	1,382.9	853.7
Increase in merchandise inventories	(269.4)	(72.5)
Change in net matched agreements to resell or repurchase securities	88.4	(36.9)
Decrease (increase) in net trading account securities	111.1	(368.1)
Increase in other operating assets	(113.3)	(370.8)
Decrease in other operating liabilities	(1,288.6)	(195.5)
Net cash provided by operating activities	3,929.5	2,992.2
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	2,480.2	1,608.5
Purchases of investments	(3,937.3)	(3,219.4)
Collections on mortgage-backed securities, mortgage loans and consumer finance notes	1,361.1	598.9
Purchases and originations of mortgage-backed securities, mortgage loans and consumer finance notes	(2,574.0)	(1,474.8)
Proceeds from sales of property and equipment	43.0	26.6
Purchases of property and equipment	(513.5)	(502.5)
Decrease (increase) in Discover Card receivables	(116.0)	227.3
Net cash used in investing activities	(3,256.5)	(2,735.4)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	1,446.7	949.7
Repayments of long-term debt	(534.8)	(401.8)
Proceeds from advances from FHLB	786.0	330.0
Repayments of advances from FHLB	(727.2)	(190.0)
Increase (decrease) in deposits	178.2	(1,567.7)
Change in net unmatched agreements to resell or repurchase securities	9.4	107.5
Net change in short-term borrowings, primarily 90 days or less	(1,000.3)	1,809.7
Repayment from (advances to) ESOP	6.6	(584.5)
Common shares issued for employee stock plans	24.4	10.4
Dividends paid to shareholders, net of reinvested amounts	(343.3)	(337.4)
Net cash provided by (used in) financing activities	(154.3)	125.9
Effect of exchange rate changes on cash	0.4	(0.9)
Net increase in cash and invested cash	$ 519.1	$ 381.8
Cash and invested cash at December 31, 1990 and 1989	$ 3,967.3	$ 2,314.4
Cash and invested cash at June 30, 1991 and 1990	$ 4,486.4	$ 2,696.2

See accompanying notes and related Summarized Statements of Income of Business Groups.

SEARS, ROEBUCK AND CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Consolidated Financial Statements

The Consolidated Statements of Financial Position as of June 30, 1991 and 1990, the related Consolidated Statements of Income for the three- and six-month periods then ended and the Consolidated Statements of Cash Flows for the six-month periods then ended are unaudited. The interim financial statements reflect all adjustments (except as discussed in footnote 3, consisting only of normal recurring accruals) which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. The consolidated financial statements and the summarized Group statements of income should be read in conjunction with the consolidated financial statements and notes thereto included in the Sears, Roebuck and Co. (Sears) 1990 Annual Report to Shareholders and Annual Report on Form 10-K. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year.

Certain reclassifications have been made in the 1990 financial statements to conform to current accounting classifications.

2. Dividend Restrictions

As disclosed in note 15 (page 30) to the Consolidated Financial Statements contained in Sears 1990 Annual Report to Shareholders and Annual Report on Form 10-K, under terms of indentures entered into in 1981 and thereafter, Sears cannot take specified actions, including the declaration of cash dividends, which would cause its consolidated unencumbered assets, as defined, to fall below 150 percent of its consolidated liabilities, as defined. At June 30, 1991, approximately $9.6 billion in retained income could be paid in dividends to shareholders under these indentures.

3. Income Taxes

The income tax provision for the first half of 1991 includes a $102.6 million charge due to the company's inability to fully recognize its deferred tax assets due to restrictions imposed by Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes." During the second quarter, the Financial Accounting Standards Board issued an exposure draft of a proposed statement revising the accounting for income taxes. This revision allows full recognition of the company's deferred tax assets and would eliminate the deferred tax charge to income. The new rules, which are expected to be in effect by 1992, would allow Sears to recover the charges taken prior to implementation.

,06

SEARS, ROEBUCK AND CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Corporate

Corporate operations include revenues and expenses which are of an overall holding company nature, including that portion of administrative costs and interest which is not allocated to the company's business groups. The Corporate statements of income consist of:

	Three Months Ended June 30 (Unaudited)		Six Months Ended June 30 (Unaudited)	
(millions)	1991	1990	1991	1990
Revenues	$ 50.6	$ 31.9	$ 101.9	$ 61.5
Costs and expenses				
Interest	133.0	109.6	260.2	199.6
Operating expenses	29.8	20.4	61.5	53.8
Total costs and expenses	162.8	130.0	321.7	253.4
Operating loss	(112.2)	(98.1)	(219.8)	(191.9)
Other loss	(21.6)	(27.9)	(43.4)	(55.4)
Loss before income tax benefit	(133.8)	(126.0)	(263.2)	(247.3)
Income tax benefit	54.5	49.9	107.4	98.0
Net corporate expense	(79.3)	(76.1)	(155.8)	(149.3)
Equity in net income of business groups	318.6	314.0	597.8	493.5
Consolidated net income	$ 239.3	$ 237.9	$ 442.0	$ 344.2

307

SEARS, ROEBUCK AND CO.
SEARS MERCHANDISE GROUP
SUMMARIZED STATEMENTS OF INCOME

(millions)	Three Months Ended June 30 (Unaudited) 1991	1990	Six Months Ended June 30 (Unaudited) 1991	1990
Revenues				
Merchandise sales and services	$ 6,885.4	$ 7,133.8	$12,725.4	$13,232.7
Credit revenues	764.9	741.8	1,551.1	1,483.0
Total revenues	7,650.3	7,875.6	14,276.5	14,715.7
Costs and expenses				
Cost of sales*, buying and occupancy	4,791.2	4,949.0	8,954.0	9,308.9
Selling and administrative	2,134.3	2,313.4	4,153.5	4,435.8
Provision for uncollectible accounts	210.0	137.5	394.6	253.5
Interest	255.3	301.1	549.9	611.6
Total costs and expenses	7,390.8	7,701.0	14,052.0	14,609.8
Operating income	259.5	174.6	224.5	105.9
Other income	3.7	7.8	3.9	8.1
Income before income taxes, minority interest and equity in net income of unconsolidated companies	263.2	182.4	228.4	114.0
Income taxes	108.3	73.4	96.9	46.7
Minority interest and equity in net income of unconsolidated companies	2.0	1.0	11.3	5.3
Group income	$ 156.9	$ 110.0	$ 142.8	$ 72.6

308

See notes to consolidated financial statements.

*The LIFO increments to cost of sales to adjust for the effects of inflation on inventory were $12.3 million and $12.1 million pretax for the three months ended June 30, 1991 and 1990, respectively, and $22.8 million and $21.8 million pretax for the six months ended June 30, 1991 and 1990, respectively.

SEARS, ROEBUCK AND CO.
ALLSTATE INSURANCE GROUP
SUMMARIZED STATEMENTS OF INCOME

(millions)	Three Months Ended June 30 (Unaudited) 1991	1990	Six Months Ended June 30 (Unaudited) 1991	1990
Revenues				
Property-liability insurance premiums earned	$ 3,803.6	$ 3,532.3	$ 7,486.7	$ 6,974.8
Life insurance premium income and contract charges	262.8	310.8	621.4	574.7
Investment income, less investment expense	740.7	631.4	1,451.1	1,229.1
Realized capital gains	2.3	55.9	33.2	143.9
Total revenues	4,809.4	4,530.4	9,592.4	8,922.5
Costs and expenses				
Property-liability insurance claims and claims expense	3,216.0	3,007.8	6,243.6	5,922.5
Life insurance policy benefits	487.5	463.9	1,055.7	866.7
Policy acquisition costs	769.5	752.3	1,524.1	1,474.6
Other operating costs and expenses	268.3	229.3	533.4	435.0
Total costs and expenses	4,741.3	4,453.3	9,356.8	8,698.8
Income from continuing operations before income taxes and equity in net income of unconsolidated companies	68.1	77.1	235.6	223.7
Income tax (benefit)				
Current operations	(71.7)	(64.8)	(117.6)	(100.2)
Deferred tax asset adjustment	64.1	-	102.6	-
Equity in net income of unconsolidated companies	-	0.3	0.2	1.0
Income from continuing operations	75.7	142.2	250.8	324.9
Discontinued operations- gain on disposal, net of tax expense of $5.5	-	-	-	10.5
Group income	$ 75.7	$ 142.2	$ 250.8	$ 335.4

,09

See notes to consolidated financial statements.

SEARS, ROEBUCK AND CO.
DEAN WITTER FINANCIAL SERVICES GROUP
SUMMARIZED STATEMENTS OF INCOME

(millions)	Three Months Ended June 30 (Unaudited) 1991	1990	Six Months Ended June 30 (Unaudited) 1991	1990
Revenues				
Interest	$ 540.6	$ 561.0	$ 1,087.4	$ 1,114.4
Commissions	171.5	168.3	360.3	339.6
Asset management	129.0	123.2	251.9	242.6
Trading	111.3	95.7	222.7	173.9
Investment banking	53.9	49.6	82.3	99.9
Other operating revenues	211.1	153.0	402.0	276.4
Total revenues	1,217.4	1,150.8	2,406.6	2,246.8
Costs and expenses				
Interest	272.7	322.3	563.7	627.1
Personnel	340.8	322.1	682.7	648.6
Provision for loan losses	111.5	102.0	201.3	180.6
Other operating costs and expenses	341.5	300.8	678.5	578.6
Total costs and expenses	1,066.5	1,047.2	2,126.2	2,034.9
Operating income	150.9	103.6	280.4	211.9
Income taxes	60.3	45.4	111.7	93.0
Group income	$ 90.6	$ 58.2	$ 168.7	$ 118.9

10

See notes to consolidated financial statements.

SEARS, ROEBUCK AND CO.
COLDWELL BANKER REAL ESTATE GROUP
SUMMARIZED STATEMENTS OF INCOME

	Three Months Ended June 30 (Unaudited)		Six Months Ended June 30 (Unaudited)	
(millions)	1991	1990	1991	1990
Revenues				
Real estate commissions	$ 193.3	$ 172.2	$ 295.4	$ 302.3
Real estate operations	45.0	37.9	92.2	75.4
Interest	139.0	106.5	264.4	221.5
Ancillary fees and other	60.4	41.3	107.0	78.3
Total revenues	437.7	357.9	759.0	677.5
Costs and expenses				
Commissions and direct costs	152.7	137.2	250.4	244.6
Operating and administrative	153.1	141.4	287.9	285.8
Interest	134.2	111.0	263.9	228.8
Total costs and expenses	440.0	389.6	802.2	759.2
Operating loss	(2.3)	(31.7)	(43.2)	(81.7)
Gain on sale of property	0.9	46.1	109.5	45.6
Equity in income (loss) of real estate joint ventures	(1.7)	(1.3)	(3.1)	(1.9)
Income (loss) before income taxes	(3.1)	13.1	63.2	(38.0)
Income taxes (benefit)	-	5.8	25.3	(11.8)
Group income (loss)	$ (3.1)	$ 7.3	$ 37.9	$ (26.2)

011

See notes to consolidated financial statements.

SEARS, ROEBUCK AND CO.

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS' REVIEW REPORT

To the Shareholders and Board of Directors
of Sears, Roebuck and Co.:

We have made a review of the Consolidated Statements of Financial Position of Sears, Roebuck and Co. as of June 30, 1991 and 1990, the Consolidated Statements of Income for the three- and six-month periods then ended and the Consolidated Statements of Cash Flows for the six-month periods then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the Consolidated Statement of Financial Position of Sears, Roebuck and Co. as of December 31, 1990, and the related Consolidated Statements of Income, Shareholders' Equity and Cash Flows for the year then ended (not presented herein); and in our report dated February 15, 1991, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying Consolidated Statement of Financial Position as of December 31, 1990, is fairly stated, in all material respects, in relation to the Consolidated Statement of Financial Position from which it has been derived.

Deloitte & Touche

Chicago, Illinois
August 8, 1991

2

ITEM 2. - SEARS, ROEBUCK AND CO.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
THREE- AND SIX-MONTH PERIODS ENDED JUNE 30, 1991 AND 1990

Consolidated Results

Operating Results

Consolidated operating revenues totaled $14.09 billion for the second quarter of 1991 and $26.97 billion for the first six months of 1991, increasing 1.7 percent and 2.0 percent from the comparable 1990 periods. The Sears Merchandise Group and the Allstate Insurance Group continued to be the dominant revenue producers with combined revenues comprising 88.4 percent of total revenues for the second quarter and 88.5 percent for the first six months of 1991.

Interest expense decreased 5.8 percent to $790.1 million for the second quarter of 1991 and 1.9 percent to $1.62 billion for the first six months of 1991 compared with the respective prior year periods. The decreases for both periods were attributable to reduced interest rates, partially offset by higher average debt balances.

Operating income for the second quarter was $362.1 million in 1991 compared with $219.5 million in 1990. For the six-month period, operating income rose 96.6 percent to $474.1 million in 1991 from $241.2 million in 1990. The improved results for both periods were primarily due to lower selling and administrative expense at the Sears Merchandise Group, partially offset by lower revenues, and an increase in net interest income and credit card operating revenues at Dean Witter Financial Services Group.

Other income (loss) was an $18.7 million loss ($12.3 million after taxes) for the second quarter of 1991 compared with income of $24.7 million ($14.1 million after taxes) in 1990. For the six-month period, other income was $66.9 million ($42.2 million after taxes) compared with $11.4 million ($6.9 million after taxes) in 1990. The change between years for both periods primarily resulted from the timing of Coldwell Banker Real Estate Group property sales. Included in the 1991 amounts were pretax gains from Coldwell Banker property sales of $.9 million and $109.5 million for the second quarter and six months, respectively, compared with pretax gains of $46.1 million and $45.6 million recorded in the comparable 1990 periods.

Pretax income, after excluding tax-exempt income, resulted in income taxes on current operations of $42.0 million and $7.9 million for the second quarter and first six months of 1991, respectively, compared with income taxes of $7.6 million and a tax benefit of $74.8 million recorded in the comparable 1990 periods. The deferred tax asset adjustments of $64.1 million and $102.6 million for the second quarter and first six months of 1991 resulted from the company's inability to fully recognize its deferred tax assets under provisions of Statement of Financial Accounting Standards No. 96, "Accounting for Income

SEARS, ROEBUCK AND CO.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
THREE- AND SIX-MONTH PERIODS ENDED JUNE 30, 1991 AND 1990

Consolidated Results

Taxes". For the full year, the 1991 deferred tax asset adjustment is expected to be approximately $200 million.

During the second quarter, the Financial Accounting Standards Board issued an exposure draft of a proposed statement revising the accounting for income taxes. This revision allows full recognition of the company's deferred tax assets and would eliminate the deferred tax charge to income. The new rules, which are expected to be in effect by 1992, would allow Sears to recover the charges taken prior to implementation.

Income from continuing operations was $239.3 million, or $.70 per share, in the second quarter of 1991 compared with $237.9, or $.69 per share, for the second quarter of 1990. For the first six months, income from continuing operations was $442.0 million, or $1.29 per share, compared to $333.7 million, or $.97 per share, in the prior year. Income from discontinued operations of $10.5 million for the first six months of 1990 resulted from the favorable development of reserves related to Allstate's group life-health operation.

Net income in the second quarter of 1991 was $239.3 million, or $.70 per share, compared with $237.9 million, or $.69 per share, in the prior year. Net income for the first six months of 1991 was $442.0 million, or $1.29 per share, compared to $344.2 million, or $1.00 per share, in 1990.

Liquidity and Capital Resources

Cash provided by the company's operating activities totaled $3.93 billion for the first six months of 1991 compared with $2.99 billion for the same period of 1990. The fluctuation in cash provided by operating activities between comparable 1991 and 1990 periods resulted primarily from changes in retail customer receivables, Dean Witter's trading account position, Allstate's insurance reserves and merchandise inventories. The decrease in retail customer receivables was due to greater customer repayments. The change in the trading account position was influenced by market conditions. Changes in insurance reserves were influenced by growth in both investment oriented products and property-liability premiums. The decrease in inventory reflected tighter inventory controls.

SEARS, ROEBUCK AND CO.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
THREE- AND SIX-MONTH PERIODS ENDED JUNE 30, 1991 AND 1990

Consolidated Results

Retail customer receivables, net of sold accounts, were $13.46 billion at June 30, 1991 as compared with $15.23 billion at December 31, 1990. The ratio of Sears Merchandise Group domestic credit sales to domestic merchandising gross sales was 57.6 percent and 58.5 percent for the first six months of 1991 and 1990, respectively. Sears, through its wholly owned subsidiary, Sears Receivables Financing Group, Inc., had net sales of $1.16 billion of Sears credit account pass-through trust certificates in the first six months of 1991, compared with sales of $1.25 billion in the prior year period. The net proceeds from the sales were used to reduce short-term borrowings.

Cash used in investing activities totaled $3.26 billion and $2.74 billion for the first six months of 1991 and 1990, respectively. The increase in cash used for investing activities was primarily due to an increase in purchases and originations of mortgage loans, partially offset by increased collections, and Discover Card receivables.

Discover Card receivables, net of sold accounts, were $8.55 billion at June 30, 1991 compared with $8.61 billion at December 31, 1990. In the first six months of 1991, $600 million of Discover Card pass-through trust certificates were sold through Discover Receivables Financing Group, Inc., an indirect wholly owned subsidiary of Sears. In the comparable period of the prior year, $1.10 billion of Discover Card pass-through trust certificates were sold. The net proceeds from the sales were used to reduce short-term borrowings.

Cash used in financing activities totaled $154.3 million for the first six months of 1991 compared with cash provided of $125.9 million in 1990. The fluctuation between years was primarily due to completion in the funding of the Employee Stock Ownership Plan offset by net reductions in outstanding debt. The company continues to focus on lengthening the term of its funding. Short-term debt was reduced by approximately $1 billion primarily from the sale of retail customer receivables, refinancing with longer term debt and, to a lesser extent, an increase in deposits.

SEARS, ROEBUCK AND CO.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
THREE- AND SIX-MONTH PERIODS ENDED JUNE 30, 1991 AND 1990

Sears Merchandise Group

Sears Merchandise Group revenues for the second quarter of 1991 were $7.65 billion, a decrease of 2.9 percent from the $7.88 billion reported for the second quarter of 1990. For the six months ended June 30, 1991, revenues were $14.28 billion, a decrease of 3.0 percent from the comparable period in 1990. Domestic merchandise revenues were $6.04 billion in the second quarter and $11.19 billion year to date, down 3.3 percent in both periods. Current year results in both the quarter and six-month periods reflected sales decreases in home fashions and home appliances, which are areas particularly hard hit by the continuing recession. Partially offsetting these decreases were gains in the sales of women's apparel, automotive accessories, home computers and lawn and garden equipment. Second quarter domestic credit revenues rose 3.8 percent to $675.9 million, while six-month revenues increased 5.4 percent to $1.37 billion. The improvement in both periods was primarily due to higher gross customer receivables balances, partially offset by the sale of credit accounts through the use of asset-backed securities. International revenues decreased 4.2 percent to $932.7 million for the quarter and decreased 6.9 percent to $1.72 billion for the first six months. The results for both periods reflected the impact of unfavorable Canadian economic conditions.

Cost of sales, buying and occupancy expense as a percent of merchandise sales and service was 69.6 percent in the second quarter of 1991, compared with 69.4 percent in 1990. For the six months ended June 30, 1991 and 1990, the ratios were 70.4 percent and 70.3 percent, respectively. The quarter and six-month results reflected lower initial gross margins which were partially offset by reduced merchandise liquidation and transportation costs.

Selling and administrative expense decreased $179.1 million in the second quarter of 1991, to 27.9 percent of revenues from 29.4 percent for the comparable 1990 quarter. For the six months ended June 30, 1991, selling and administrative expense decreased $282.3 million, to 29.1 percent of revenues compared with 30.1 percent for the same period in 1990. Reductions in payroll and benefits, distribution and advertising expenses were the primary contributors to the improvement in both periods, reflecting the impact of ongoing cost reduction programs. The decrease in payroll and benefits included a $16.1 million pension curtailment gain.

The provision for uncollectible accounts was $210.0 million in the second quarter and $394.6 million for the six months ended June 30, 1991, compared with $137.5 million and $253.5 million, respectively, in the comparable prior year periods. The increase reflected the continued unfavorable trend in customer bankruptcies resulting from current economic conditions.

SEARS, ROEBUCK AND CO.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
THREE- AND SIX-MONTH PERIODS ENDED JUNE 30, 1991 AND 1990

Sears Merchandise Group

Interest expense for the second quarter was $255.3 million this year compared with $301.1 million in the same period in 1990, and for the first six months was $549.9 million this year compared with $611.6 million last year. The reduction was primarily due to lower average interest rates.

The following summarizes the contribution to income of Merchandising, Credit and International.

	Three Months ended June 30 Net Income		Six Months ended June 30 Net Income (Loss)	
(millions)	1991	1990	1991	1990
Merchandising	$ 59.4	$ 17.3	$ (43.1)	$ (116.9)
Credit	94.9	84.9	195.9	181.7
International	2.6	7.8	(10.0)	7.8
Merchandise Group	$ 156.9	$ 110.0	$ 142.8	$ 72.6

In December 1990, the Financial Accounting Standards Board issued Technical Bulletin 90-1, "Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts." The Merchandise Group adopted the Technical Bulletin prospectively in 1990. Application of the Technical Bulletin guidelines increased after-tax earnings $10.9 million in the second quarter of 1991, and $21.0 million for the six months ended June 30, 1991.

Due to traditional consumer buying patterns, merchandise sales in the first quarter are typically lower than in other quarterly periods. This generally results in a higher ratio of fixed costs to sales and a lower ratio of operating income to sales as compared with other periods.

Domestic merchandising inventories on a FIFO basis were $4.50 billion at June 30, 1991, compared with $4.53 billion at June 30, 1990 and $4.18 billion at December 31, 1990. As of June 30, domestic merchandise inventories on a LIFO basis were $3.74 billion this year, $3.77 billion last year and $3.45 billion at December 31, 1990.

As of June 30, 1991, there were 864 domestic department stores and 907 specialty stores in operation. During the second quarter, domestic merchandising opened two stores in new markets and relocated two stores. Specialty stores increased by a net of two stores during the same period. Total square footage as of June 30, 1991 was 127.9 million, compared with 126.6 million and 127.7 million as of June 30, 1990 and December 31, 1990.

SEARS, ROEBUCK AND CO.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
THREE- AND SIX-MONTH PERIODS ENDED JUNE 30, 1991 AND 1990

Allstate Insurance Group

Revenues for the Allstate Insurance Group totaled $4.81 billion for the second quarter of 1991 and $9.59 billion for the first six months, increases of 6.2 percent and 7.5 percent, respectively, over the comparable prior year periods. Income from continuing operations, before the deferred tax asset adjustment, was $139.8 million for the second quarter and $353.4 million for the first half of 1991 compared with $142.2 million and $324.9 million for the same periods last year. Net income after the deferred tax asset adjustment for 1991 was $75.7 million in the second quarter and $250.8 million for the first six months compared with $142.2 million and $335.4 million for the same periods of 1990. The first half of 1990 included $10.5 million of income from the discontinued group life-health operations.

Property-Liability Operations

Net premiums written were $3.76 billion and $7.57 billion for the three- and six-month periods of 1991, up 2.3 percent and 3.0 percent, respectively, over the same periods last year. In the second quarter of 1991, Allstate had a one-time $216.7 million reduction of premiums written by deferring the recognition of premiums received in advance until the effective date of the policies. This change was made to be consistent with a change in regulatory accounting and did not affect premiums earned or net income. If the former method had been continued, the three- and six-month rates of increase in premiums written would have been 8.2 percent and 5.9 percent, respectively. Growth in average premiums contributed slightly more to the growth in premiums written than higher unit sales. Premiums earned for the property-liability operations increased $271.3 million or 7.7 percent to $3.80 billion for the second quarter of 1991 and $511.9 million or 7.3 percent to $7.49 billion for the first half.

Underwriting losses were $349.4 million in the second quarter and $611.7 million in the first six months compared with underwriting losses of $370.5 million and $678.8 million for the same periods last year. The combined ratio decreased 1.3 points to 109.2 in the second quarter and 1.5 points to 108.2 in the first half of 1991 compared with the respective 1990 periods. Most of the improvement for the six-month period was due to favorable trends in the number of claims reported and increased average premiums which were partially offset by continuing increases in average claim costs for auto injury coverages and less favorable results in property coverages.

SEARS, ROEBUCK AND CO.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
THREE- AND SIX-MONTH PERIODS ENDED JUNE 30, 1991 AND 1990

Allstate Insurance Group

Investment income was $345.2 million and $683.4 million for the three- and six-month periods of 1991, respectively, compared with $323.2 million and $634.2 million for the same periods of 1990. Improvement in investment income followed improved cash flow from insurance operations despite lower interest rates in the current period. Realized capital gains from the sale of investments, after income taxes, totaled $7.7 million and $21.6 million for the second quarter and first half of this year, respectively, versus $34.4 million and $84.0 million for the same periods last year. Property-liability income before the deferred tax asset adjustment was $99.0 million and $265.4 million for the three- and six-month periods of 1991 compared with $93.6 million and $227.3 million in the same periods of 1990. Income after the deferred tax asset adjustment was $34.9 million and $162.8 million for the second quarter and first half of 1991.

Pending Legal Proceedings

As described in the 1990 Annual Report to Shareholders and Annual Report on Form 10-K, the automobile insurance industry has been under pressure from various government regulators and legislators to reduce, or freeze, premiums at levels that do not correspond with underlying costs. This creates severe pressures on profitability since the increased costs of litigation and medical treatment, combined with rising automobile repair costs, continue to drive up the price of providing automobile insurance coverage.

Although the breadth of this activity has diminished, management expects adverse legislative and regulatory activity to continue in a limited number of states. For example, in California and North Carolina, Allstate is challenging regulatory actions that would result in refunds of auto premiums to policyholders under certain conditions. In Massachusetts, Allstate is involved in litigation challenging certain costs which the regulatory authorities are seeking to impose upon Allstate in connection with Allstate's withdrawal from that state's automobile insurance business as of June 30, 1989.

Allstate believes that the law of the United States, and of essentially all states, generally assures that a regulated insurer must be granted the opportunity to earn a fair and reasonable return from its automobile insurance business. Allstate is and will continue vigorously to pursue relief from adverse government actions through the regulatory administrative processes, and in the courts.

While the aggregate dollar amounts involved in these regulatory and legal actions cannot be determined with certainty, the amounts at issue could be significant. An adverse final determination of one or more of the above-mentioned matters could have a material impact on earnings, however, liquidity and capital resources are not expected to be materially affected. Management believes that it is unlikely that such a determination will be made at any time in the foreseeable future. Allstate continues to believe that its conduct has been proper, and that any liability that might result from the resolution of these matters will not have a material effect on shareholders' equity. 19

SEARS, ROEBUCK AND CO.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
THREE- AND SIX-MONTH PERIODS ENDED JUNE 30, 1991 AND 1990

Allstate Insurance Group

Life Operations

Premium income and contract charges as measured under generally accepted accounting principles for the life insurance operations totaled $262.8 million for the quarter and $621.4 million for the first half compared with $310.8 million and $574.7 million for last year. Most lines of business showed healthy increases for the second quarter of 1991 compared with 1990, except premium income from pension products which was significantly lower and caused the overall decrease. Life insurance statutory premiums from continuing operations, which include premiums and deposits received for all products, were $1.04 billion and $2.54 billion in the three- and six-month periods of 1991, respectively, compared with $1.07 billion and $2.33 billion for those periods last year. Investment oriented product sales comprise most of the statutory revenue.

Assets under management increased $850.3 million and $2.03 billion during the second quarter and first half, respectively, of 1991 and total $15.22 billion at June 30, 1991 compared with $11.38 billion at June 30, 1990. Continued strong growth of assets under management is the major factor which caused investment income before income taxes to increase 28.3 percent to $395.5 million in the second quarter and to increase 29.0 percent to $767.7 million in the first half of 1991 compared with 1990.

Realized capital losses after income taxes were $6.2 million in the second quarter compared with realized capital gains after taxes of $2.5 million for the same period last year. Realized capital gains after taxes for the first six months of 1991 and 1990 were $.3 million and $11.0 million. Life insurance income from continuing operations was $40.8 million and $88.0 million for the three- and six-month periods of 1991 compared with $48.6 million and $97.6 million for the same periods of 1990. The second quarter of 1990 included a $4.9 million after tax gain from the sale of Allstate's personal health business.

SEARS, ROEBUCK AND CO.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
THREE- AND SIX-MONTH PERIODS ENDED JUNE 30, 1991 AND 1990

Dean Witter Financial Services Group

Dean Witter Financial Services Group revenues for the second quarter and first six months of 1991 were $1.22 billion and $2.41 billion, respectively. This represents an increase of 5.8 percent over the $1.15 billion reported in the second quarter of 1990 and an increase of 7.1 percent over the $2.25 billion reported for the first six months of 1990. The Group reported net income of $90.6 million and $168.7 million for the second quarter and first six months of 1991 as compared with net income of $58.2 million and $118.9 million for the comparable periods of 1990.

Securities Activities

Net interest income for the second quarter and first six months of 1991 was $37.1 million and $76.0 million, reflecting increases of 2.5 percent and 3.8 percent over the comparable periods of 1990. These increases were due to improved spreads earned on repurchase and resell agreements, as well as customer margin lending.

Operating revenues for the second quarter and first six months of 1991 were $500.8 million and $980.0 million, reflecting increases of 6.4 percent and 7.0 percent over the comparable periods of 1990. Commission revenues increased 1.9 percent and 6.1 percent, respectively, for the second quarter and first six months, due to higher activity in listed securities. Asset management revenues increased 4.7 percent and 3.8 percent for the second quarter and first six months due to continued growth in mutual fund assets. Trading revenues increased 16.3 percent and 28.1 percent for the second quarter and first six months due to higher equity and fixed income trading activity. Investment banking revenues increased 8.7 percent and decreased 17.6 percent, respectively, for the second quarter and first six months due to the fluctuation of fee income recorded in various underwriting activities.

Operating costs and expenses for the second quarter and first six months of 1991 were $463.6 million and $921.4 million, representing increases of 4.3 percent and 5.0 percent over the comparable periods of 1990. These increases reflect the growth in operating revenue for the respective periods.

Securities activities recorded net income of $42.4 million and $76.0 million, for the second quarter and first six months of 1991 as compared with $32.4 million and $57.1 million for the comparable periods of 1990.

SEARS, ROEBUCK AND CO.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
THREE- AND SIX-MONTH PERIODS ENDED JUNE 30, 1991 AND 1990

Dean Witter Financial Services Group

Credit Services Activities

Net interest income for the second quarter and first six months of 1991 was $230.8 million and $447.7 million, respectively, reflecting increases of 14.0 percent and 8.1 percent over the comparable periods of 1990. These increases were due to the higher level of receivables and lower average interest rates on borrowings, partially offset by the additional sale of receivables through the use of asset-backed securities.

Operating revenues for the second quarter and first six months of 1991 were $176.0 million and $339.2 million, reflecting increases of 47.5 percent and 56.8 percent over the comparable periods of 1990. The increases were due primarily to servicing fees related to the additional sales of receivables. Operating revenues were also favorably affected by growth in credit card activities.

The provision for loan losses of $103.5 million and $191.5 million for the second quarter and first six months of 1991 increased 4.3 percent and 8.9 percent over the comparable periods of 1990. These increases primarily reflect higher charge-offs partially offset by higher recoveries. Other operating expenses for the second quarter and first six months of 1990 were $226.7 million and $449.6 million, respectively, and increased 25.0 percent and 26.8 percent as compared to the comparable periods of 1990. These increases were due primarily to growth of credit card activities.

Credit Services activities recorded net income of $48.2 million and $92.7 million for the second quarter and first six months of 1991, compared with $25.8 million and $61.8 million for the respective periods of 1990.

022

SEARS, ROEBUCK AND CO.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS
THREE- AND SIX-MONTH PERIODS ENDED JUNE 30, 1991 AND 1990

Coldwell Banker Real Estate Group

Revenues for the Coldwell Banker Real Estate Group totaled $437.7 million for the second quarter of 1991 and $759.0 million for the first six months, increases of 22.3 percent and 12.0 percent, respectively, over the comparable prior year periods. After bottoming in January this year, the weak residential market improved and in May, home sales exceeded the prior year for the first time. The Mortgage Group reported a 37.8 percent increase in revenues during the second quarter and a 25.9 percent increase during the first six months, primarily due to increased origination fees and interest income. Loan production and purchases totaled $4.0 billion during the first six months of 1991, $2.2 billion higher than the same period last year. Residential revenues increased 12.9 percent in the second quarter to $223.5 million, with six-month revenues approximating the prior year comparable period. The second quarter increase reflects improved market conditions and the acquisition of a major Northeastern residential brokerage firm in February, significantly increasing Coldwell Banker's market share in the Northeast. The Residential Group continued to manage its market presence in strategic metropolitan areas by closing selected company owned offices and converting others to franchise status. At the end of June, the Residential affiliate network had expanded to 1,418 offices. Homart Development Co. revenues, primarily shopping center and office building rents, increased $7.0 million and $16.6 million compared with the second quarter and first six months of last year. Improved office occupancy and shopping center acquisitions in 1990 accounted for the increase.

Total costs and expenses increased 12.9 percent in the second quarter of 1991. Residential commission expense, which varies in relation to commission revenue, rose 10.2 percent. Operating and administrative expenses rose 8.3 percent in response to higher mortgage production costs resulting from the significant increase in mortgage production volume. Interest expense increased 20.9 percent as a result of carrying costs associated with additional Homart properties and a larger loan portfolio balance due to higher production volume within the Sears Mortgage Group. For the first six months, total costs and expenses increased 5.7 percent as cost containment at Residential partially offset the rise in operating cost at Homart and costs related to increased production volume at the Sears Mortgage Group.

Gains on sale of property on an after tax basis were $0.5 million for the second quarter and $68.6 million for the first half of 1991, as compared with $27.5 million and $27.2 million for the same periods in 1990. The 1991 gain resulted primarily from the sale of a wholly owned shopping center in the first quarter. In 1990, gains on sale of property were primarily from the sale of a partial interest in a shopping center in the second quarter. 023

A $3.1 million net loss was recorded in the second quarter of 1991 compared with net income of $7.3 million in the second quarter of 1990. For the six-month period, net income totaled $37.9 million in 1991 compared with a $26.2 million net loss in 1990. Operating results improved at Residential and Mortgage for both periods in 1991, while a difference in the timing of property sales at Homart caused significant fluctuations in net income compared with the second quarter and first six months of 1990.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

The Registrant held its Annual Meeting of Shareholders in Chicago on May 9, 1991.

The following persons were elected as directors in Class C of the Board of Directors: Edward A. Brennan, Sybil C. Mobley and Edgar B. Stern, Jr. Each such director received 239,114,153 votes for election, and 6,134,455 votes were withheld as to each director.

The terms of the following directors continued after the Annual Meeting: Warren L. Batts, Albert V. Casey, E. Mandell de Windt, Norma Pace, Nancy C. Reynolds, Clarence B. Rogers, Jr. and Donald H. Rumsfeld.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

An Exhibit Index has been filed as part of this Report on Page E-1.

(b) Reports on Form 8-K.

Registrant filed a Current Report dated a) April 18, 1991 (Items 5 and 7) containing statements of income for the three months ended March 31, 1990 and 1991; b) April 22, 1991 (Items 5 and 7); c) May 6, 1991 (Items 5 and 7); and d) June 26, 1991 (Items 5 and 7).

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Sears, Roebuck and Co.
(Registrant)

August 13, 1991

By
John S. Vivian
Vice President and
Comptroller

(Principal Accounting
Officer and duly authorized
officer of Registrant)

EXHIBIT INDEX
SEARS, ROEBUCK AND CO.
QUARTER ENDED JUNE 30, 1991

Exhibit No.		Sequentially Numbered Page
4.	Registrant hereby agrees to furnish the Commission, upon request, with the instruments defining the rights of holders of each issue of long-term debt of the Registrant and its consolidated subsidiaries.	
12.(a).	Computation of ratio of income to fixed charges (excluding interest on savings deposits) for Sears, Roebuck and Co. and consolidated subsidiaries for each of the five years ended December 31, 1990, and for the six- and twelve-month periods ended June 30, 1991.	27
12.(b).	Computation of ratio of income to fixed charges (including interest on savings deposits) for Sears, Roebuck and Co. and consolidated subsidiaries for each of the five years ended December 31, 1990, and for the six- and twelve-month periods ended June 30, 1991.	28
15.	Acknowledgement of awareness from Deloitte & Touche concerning unaudited interim financial information.	29

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Information Services, Inc.

5161 River Road
Bethesda, MD 20816
(301) 951-1300

EXHIBITS FOLLOW

Exhibit 12(a)

COMPUTATION OF RATIO OF INCOME TO FIXED CHARGES
(EXCLUDING INTEREST ON SAVINGS DEPOSITS)
SEARS, ROEBUCK AND CO. AND CONSOLIDATED SUBSIDIARIES

	Twelve Months Ended June 30, 1991 (unaudited)	Six Months Ended June 30, 1991 (unaudited)	Year Ended December 31 1990	1989	1988	1987	1986
			(millions, except ratios)				
Fixed Charges							
Interest and amortization of debt discount and expense on all indebtedness	$3,337.9	$1,624.3	$3,370.1	$3,224.1	$2,937.4	$2,720.6	$2,653.3
Deduct interest on savings deposits	(702.2)	(305.4)	(718.7)	(717.3)	(544.5)	(471.5)	(433.5)
Add interest element implicit in rentals	320.5	163.0	304.0	269.1	254.9	223.8	203.8
	2,956.2	1,481.9	2,955.4	2,775.9	2,647.8	2,472.9	2,423.6
Interest capitalized	46.4	25.0	43.1	38.8	40.6	39.4	30.4
Total fixed charges	$3,002.6	$1,506.9	$2,998.5	$2,814.7	$2,688.4	$2,512.3	$2,454.0
Income							
Income from continuing operations	$1,000.0	$442.0	$891.7	$1,445.8	$1,032.3	$1,726.2	$1,335.6
Deduct undistributed net income of unconsolidated companies	13.1	1.5	10.2	(2.7)	0.8	(16.2)	(4.9)
	1,013.1	443.5	901.9	1,443.1	1,033.1	1,710.0	1,330.7
Add							
Fixed charges (excluding interest capitalized)	2,956.2	1,481.9	2,955.4	2,775.9	2,647.8	2,472.9	2,423.6
Income taxes (benefit)	(35.7)	110.5	(221.0)	352.8	53.5	348.1	443.8
Income before fixed charges and income taxes	$3,933.6	$2,035.9	$3,636.3	$4,571.8	$3,734.4	$4,531.0	$4,198.1
Ratio of income to fixed charges	1.31	1.35	1.21	1.62	1.39	1.80	1.71

027

Exhibit 12(b)

COMPUTATION OF RATIO OF INCOME TO FIXED CHARGES
(INCLUDING INTEREST ON SAVINGS DEPOSITS)
SEARS, ROEBUCK AND CO. AND CONSOLIDATED SUBSIDIARIES

	Twelve Months Ended June 30, 1991 (unaudited)	Six Months Ended June 30, 1991 (unaudited)	Year Ended December 31 1990	1989	1988	1987	1986
			(millions, except ratios)				
Fixed Charges							
Interest and amortization of debt discount and expense on all indebtedness	$3,337.9	$1,624.3	$3,370.1	$3,224.1	$2,937.4	$2,720.6	$2,653.3
Add interest element implicit in rentals	320.5	163.0	304.0	269.1	254.9	223.8	203.8
	3,658.4	1,787.3	3,674.1	3,493.2	3,192.3	2,944.4	2,857.1
Interest capitalized	46.4	25.0	43.1	38.8	40.6	39.4	30.4
Total fixed charges (including interest on savings deposits)	$3,704.8	$1,812.3	$3,717.2	$3,532.0	$3,232.9	$2,983.8	$2,887.5
Income							
Income from continuing operations	$1,000.0	$442.0	$891.7	$1,445.8	$1,032.3	$1,726.2	$1,335.6
Deduct undistributed net income of unconsolidated companies	13.1	1.5	10.2	(2.7)	0.8	(16.2)	(4.9)
	1,013.1	443.5	901.9	1,443.1	1,033.1	1,710.0	1,330.7
Add							
Fixed charges (excluding interest capitalized)	3,658.4	1,787.3	3,674.1	3,493.2	3,192.3	2,944.4	2,857.1
Income taxes (benefit)	(35.7)	110.5	(221.0)	352.8	53.5	348.1	443.8
Income before fixed charges and income taxes	$4,635.8	$2,341.3	$4,355.0	$5,289.1	$4,278.9	$5,002.5	$4,631.6
Ratio of income to fixed charges (including interest on savings deposits)	1.25	1.29	1.17	1.50	1.32	1.68	1.60

528

Exhibit 15

To the Shareholders and Board of Directors of Sears, Roebuck and Co.:

We have made review, in accordance with standards established by the American Institute of Certified Public Accountants, of the unaudited interim financial information of Sears, Roebuck and Co. for the three- and six-month periods ended June 30, 1991 and 1990, as indicated in our report dated August 8, 1991; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report, referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended June 30, 1991, is incorporated by reference in Registration Statement Nos. 2-44449, 2-64879, 2-80037, 33-18081, 33-23793, 33-29458, 33-32008, 33-32568, 33-35021, 33-37427, 33-39724 and 33-41485 of Sears, Roebuck and Co., Registration Statement Nos. 33-11100 and 33-32170 of Sears, Roebuck and Co. and Dean Witter Reynolds Inc. Employee Retirement Investment Plan, Registration Statement Nos. 33-31009 and 33-36993 of Sears, Roebuck and Co. and The Savings and Profit Sharing Fund of Sears Employees and Registration Statement No. 33-40056 of Discover Credit Corp.

We also are aware that the aforementioned report, pursuant to Rule 436(c) of the General Rules and Regulations under the Securities Act of 1933, is not considered a part of a registration statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

Deloitte & Touche

Chicago, Illinois
August 8, 1991

EXHIBIT 10 - MOAC

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Attorneys for MOAC Mall Holding LLC

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:	)	Chapter 11
	)	Case No. 18-23538 (RDD)
	)	
SEARS HOLDINGS CORPORATION, *et al.*,	)	(Jointly Administered)
	)	
Debtors.[1]	)	

MOAC MALL HOLDINGS LLC'S REQUESTS FOR ADMISSION FROM TRANSFORM HOLDCO LLC

[1] The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's tax identification number are as follows: Sears Holdings Corporation (0798); Kmart Holding Corporation (3116); Kmart Operations LLC (6546); Sears Operations LLC (4331); Sears, Roebuck and Co. (0680); ServiceLive Inc. (6774); A&E Factory Service, LLC (6695); A&E Home Delivery, LLC (0205); A&E Lawn & Garden, LLC (5028); A&E Signature Service, LLC (0204); FBA Holdings Inc. (6537); Innovel Solutions, Inc. (7180); Kmart Corporation (9500); MaxServ, Inc. (7626); Private Brands, Ltd. (4022); Sears Development Co. (6028); Sears Holdings Management Corporation (2148); Sears Home & Business Franchises, Inc. (6742); Sears Home Improvement Products, Inc. (8591); Sears Insurance Services, L.L.C. (7182); Sears Procurement Services, Inc. (2859); Sears Protection Company (1250); Sears Protection Company (PR) Inc. (4861); Sears Roebuck Acceptance Corp. (0535); Sears, Roebuck de Puerto Rico, Inc. (3626); SYW Relay LLC (1870); Wally Labs LLC (None); Big Beaver of Florida Development, LLC (None); California Builder Appliances, Inc. (6327); Florida Builder Appliances, Inc. (9133); KBL Holding Inc. (1295); KLC, Inc. (0839); Kmart of Michigan, Inc. (1696); Kmart of Washington LLC (8898); Kmart Stores of Illinois LLC (8897); Kmart Stores of Texas LLC (8915); MyGofer LLC (5531); Sears Brands Business Unit Corporation (4658); Sears Holdings Publishing Company, LLC. (5554); Sears Protection Company (Florida), L.L.C. (4239); SHC Desert Springs, LLC (None); SOE, Inc. (9616); StarWest, LLC (5379); STI Merchandising, Inc. (0188); Troy Coolidge No. 13, LLC (None); BlueLight.com, Inc. (7034); Sears Brands, L.L.C. (4664); Sears Buying Services, Inc. (6533); Kmart.com LLC (9022); and Sears Brands Management Corporation (5365). The location of the Debtors' corporate headquarters is 3333 Beverly Road, Hoffman Estates, Illinois 60179.

Exhibit
10-MOAC

MOAC Mall Holdings LLC ("MOAC"), by and through its undersigned counsel, hereby requests and demands that Transform Holdco LLC (the "Buyer" or "Transform"), a party to the contested motion in the above-captioned case of the Debtor to assume and assign certain designatable leases (Doc. No. 3298), as evidenced by and acknowledged in Transform Holdco LLC's Omnibus Reply in Support of Assumption and Assignment of Designated Leases (Doc. No. 3654), admit or deny the following requests for admission within thirty days after service under Bankruptcy Rule 7036, incorporating Fed. R. Civ. P. 36, and permitted in this contested matter by Bankruptcy Rule 9014. MOAC will seek an award of expenses, including attorney fees, under Bankruptcy Rule 7036, incorporating Fed. R. Civ. P. 37, incurred in proving the truth of any of the requests that are denied.

DEFINITIONS

1. "And" and "or" refer to both their conjunctive and disjunctive meanings.

2. "All" and "any" mean "each and every" as well as "any one."

3. "Assignee" means Transform Leaseco LLC or any other intended assignee, pursuant to the Debtor's pending motion to assume and assign the Lease, and any other persons or entities acting on its behalf, including but not limited to its affiliates, parents, subsidiaries, successors, predecessors, current and former employees, representatives, independent contractors, associates, attorneys, accountants, consultants, advisors, agents, owners, officers, and directors.

4. "Communication" means any contact whatsoever and any transmission or exchange of words, numbers, graphic material, or other information, either orally, electronically, or in writing, whether made, received, or participated in, and includes without limitation any conversation, correspondence, letter, note, memorandum, inter- or intra-office correspondence, telephone call, telegraph, telegram, telex, telecopy, facsimile, electronic mail, text message,

internet communication, telefax, cable, electronic message, tape recording, discussion, face-to-face meeting, or conference or meeting of any kind whether in person, by audio, video, telephone, or in any other form.

5. "Buyer," "Transform," "you," or "your" means Transform Holdco LLC and any other persons or entities acting on its behalf, including but not limited to its affiliates, parents, subsidiaries, successors, predecessors, current and former employees, representatives, independent contractors, associates, attorneys, accountants, consultants, advisors, agents, owners, officers, and directors.

6. "Debtor," "Debtors," or "Sears" means any of the debtors in any of the cases jointly administered with the above captioned Chapter 11 case or identified in footnote 1 of this document and any other persons or entities acting on its behalf, including but not limited to its affiliates, parents, subsidiaries, successors, predecessors, current and former employees, representatives, independent contractors, associates, attorneys, accountants, consultants, advisors, agents, owners, officers, and directors.

7. "Mall of America" means the mall in Bloomington, Minnesota, popularly known as the Mall of America®.

8. "MOAC" means MOAC Holdings LLC and any other persons or entities acting on its behalf, including but not limited to its affiliates, parents, subsidiaries, successors, predecessors, current and former employees, representatives, independent contractors, associates, attorneys, accountants, consultants, advisors, agents, owners, officers, and directors.

9. The "Lease" means the lease between Sears and MOAC, identified with Store # 1722 on Doc. No. 3654-1 in the above captioned matter.

10. The "Leased Space" means the space subject to the Lease.

11. "Relating to" means to have to do with, to be of importance to, to involve, or in some manner, direct or indirect, to evidence, define, describe, or explain. The phrase is intended broadly, but not in a way designed to seek information that is irrelevant, or beyond the scope authorized by Fed. R. Civ. P. 26. Any objection on the ground that the request is overbroad, based solely on the use of one or the other of these terms, is inappropriate because that meaning is not intended. The term should be understood and read in its common, dictionary-sense meaning.

INSTRUCTIONS

The following instructions apply to each specific request for admission unless otherwise explicitly stated.

1. You must specifically admit or deny each request; any request to which you do not respond will be deemed admitted.

2. If you cannot admit or deny a request, you must set forth the reasons why you cannot do so.

3. If you respond to a request with anything other than an unqualified admission, you must set forth any objections to the request.

4. A denial shall fairly meet the substance of the requested admission.

5. When good faith requires you to qualify your answer, or deny only part of a request, you must specify the part of the request that is admitted and qualify or deny the remainder.

6. You may not give lack of information or knowledge as a reason for failing to admit or deny a request, unless you state that you have made a reasonable inquiry and the information known or readily obtainable by you is insufficient to enable you to admit or deny the request.

7. You may not object to a request solely on the grounds that the request presents a genuine issue of material fact for trial.

8. The singular and masculine form of a noun or pronoun includes the plural, feminine, or neuter form, where appropriate.

9. The past tense includes the present tense where the meaning is not distorted and the verb form of a noun or pronoun may be used, as appropriate in a particular context.

10. Unless specifically defined herein, all words and terms used herein shall be construed and interpreted according to ordinary custom, usage, and meaning.

11. As set forth in Fed. R. Civ. P. 26(e), these requests are deemed to be continuing in nature and you are required to supplement your responses upon receipt or discovery of additional information or documents pertinent to any of the propounded requests.

REQUESTS FOR ADMISSION

REQUEST NO. 1:

Admit that Mall of America is a mall and shopping center, as shopping center is understood to mean with regard to 11 U.S.C. § 365(b)(3).

REQUEST NO. 2:

Admit that Sears entered into the Lease with MOAC for the Leased Space in Mall of America on May 30, 1991.

REQUEST NO. 3:

Admit that Sears operated a retail store in all three floors of the Leased Space from the date Mall of America opened, on or about August 11, 1992, until the store discontinued operations in connection with the above captioned bankruptcy.

REQUEST NO. 4:

Admit that there is currently no retail or other tenant operating any service open to Mall of America customers in the Leased Space.

REQUEST NO. 5:

Admit that the financial condition of the Assignee is not similar to or better than the financial condition of Sears on or about May 30, 1991.

REQUEST NO. 6:

Admit that the operating performance of the Assignee is not similar to or better than the operating performance of Sears on or about May 30, 1991.

REQUEST NO. 7:

Admit that neither you nor, to the best of your knowledge, the Debtor have provided information regarding the financial condition or operating performance of Sears on or about May 30, 1991, to MOAC or the Court in support of the pending motion to assume and assign the Lease.

REQUEST NO. 8:

Admit that the Assignee proposes to operate with a "smaller footprint" of fewer stores, as described in Doc. No. 3654, than the Debtor operated on or about May 30, 1991.

REQUEST NO. 9:

Admit that you do not currently plan for Transform Leaseco LLC to operate as a retail distributor.

REQUEST NO. 10:

Admit that any Assignee annual retail sales are less than the annual retail sales of Sears on or about May 30, 1991.

REQUEST NO. 11:

Admit that neither you nor the Assignee propose to operate any retail store in the Leased Space without subletting or assigning the Lease to another entity.

REQUEST NO. 12:

Admit that you have not provided to MOAC or the Court the identity, financial condition, or operating performance of any proposed tenant that would operate a retail store in the Leased Space in support of the pending motion to assume and assign the Lease.

REQUEST NO. 13:

Admit that you have not provided any assurance that all three floors of the Leased Space will be open to Mall of America customers for retail shopping within a reasonable period if the Court approves the pending motion to assume and assign the Lease.

REQUEST NO. 14:

Admit that assumption and assignment of the Lease is not necessary to support Transform's retail operations for Transform to maintain its financial condition.

REQUEST NO. 15:

Admit that Transform's retail operations are not sufficient to maintain Transform's financial condition, which is dependent upon assumption and assignment of the Lease.

Dated: May 17, 2019

Respectfully submitted,

/e/ Thomas J. Flynn

Thomas J. Flynn (30570)
Larkin Hoffman Daly & Lindgren, Ltd.
8300 Norman Center Drive
Suite 1000
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(952) 835-3800
tflynn@larkinhoffman.com

Admitted *pro hac vice* on December 26, 2018

Attorneys for MOAC Mall Holdings LLC

4847-0231-3111, v. 1

Beeby, Alexander J.

From:	Barefoot, Luke A. <lbarefoot@cgsh.com>
Sent:	Friday, May 17, 2019 4:00 PM
To:	Rice, Gina M.; O'Neal, Sean A.
Cc:	Flynn, Thomas J.; Beeby, Alexander J.
Subject:	RE: MOAC Mall Holdings LLC's Requests for Admission and Interrogatories | SDNY Bankr. Case No. 18-23538 (jointly administered)

Thank you for the service copies. I reached out to Tom directly about these untimely pleadings when they hit the docket and look forward to discussing with him.

—

Luke A. Barefoot
Cleary Gottlieb Steen & Hamilton LLP
Assistant: jdwulet@cgsh.com
One Liberty Plaza, New York NY 10006
T: +1 212 225 2829
lbarefoot@cgsh.com | clearygottlieb.com

From: Rice, Gina M. [mailto:grice@larkinhoffman.com]
Sent: Friday, May 17, 2019 4:56 PM
To: Barefoot, Luke A. <lbarefoot@cgsh.com>; O'Neal, Sean A. <soneal@cgsh.com>
Cc: Flynn, Thomas J. <tflynn@larkinhoffman.com>; Beeby, Alexander J. <abeeby@larkinhoffman.com>
Subject: MOAC Mall Holdings LLC's Requests for Admission and Interrogatories | SDNY Bankr. Case No. 18-23538 (jointly administered)

Dear Messrs. Barefoot and O’Neal,

On behalf of Tom Flynn, attorney for MOAC Mall Holdings LLC, please find attached and served upon you the following:

1. MOAC Mall Holdings LLC’s Requests for Admission from Transform Holdco LLC and
2. MOAC Mall Holdings LLC’s Interrogatories to Transform Holdco LLC.

Thank you,
Gina

Gina M. Rice
Legal Administrative Assistant
direct | 952-896-3382
fax | 952-896-3333

8300 Norman Center Drive
Suite 1000
Minneapolis, MN 55437-1060

www.larkinhoffman.com

Larkin Hoffman ATTORNEYS

Exhibit 11 - MOAC

DLA PIPER

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Richard A. Chesley
Richard.Chesley@dlapiper.com
T 312.368.3430
F 312.630.5330

July 26, 2019
VIA UPS

Thomas J. Flynn
Larkin Hoffman Daly & Lindgren, Ltd.
8300 Norman Center Drive
Suite 1000
Minneapolis, Minnesota 55437-1060

Re: Mall of America / Transform Holdco LLC

Dear Tom:

It was nice seeing you earlier this week at the settlement meeting. Although it did not end with a deal, we feel significant progress was made, and we look forward to continuing our discussions.

In that vein, we have prepared the enclosed responses to the discovery requests originally served on Transform Holdco LLC. We did not receive the request until you noted this in your latest Objection, and wanted to provide these to you as soon as possible. Please let us know if you have any questions.

Sincerely,

Richard A. Chesley

Enclosures

cc: Rachel Ehrlich Albanese, Esq.

Exhibit
11-MOAC

DLA PIPER LLP (US)
1251 Avenue of the Americas
27th Floor
New York, NY 10020
Telephone: (212) 335-4500
Richard A. Chesley
R. Craig Martin
Rachel Ehrlich Albanese

Attorneys for Transform Holdco LLC

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	:	
	:	**Chapter 11**
SEARS HOLDINGS CORPORATION, *et al.*,	:	
	:	**Case No. 18-23538 (RDD)**
	:	
Debtors.[1]	:	**(Jointly Administered)**

TRANSFORM HOLDCO'S OBJECTIONS AND RESPONSES TO MOAC MALL HOLDINGS LLC'S INTERROGATORIES TO THE BUYER

Pursuant to Federal Rule of Civil Procedure 33 and Federal Rule of Bankruptcy Procedure 7033, Transform Holdco LLC (the "Buyer") respectfully responds and objects as follows to the

[1] The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are as follows: Sears Holdings Corporation (0798); Kmart Holding Corporation (3116); Kmart Operations LLC (6546); Sears Operations LLC (4331); Sears, Roebuck and Co. (0680); ServiceLive Inc. (6774); SHC Licensed Business LLC (3718); A&E Factory Service, LLC (6695); A&E Home Delivery, LLC (0205); A&E Lawn & Garden, LLC (5028); A&E Signature Service, LLC (0204); FBA Holdings Inc. (6537); Innovel Solutions, Inc. (7180); Kmart Corporation (9500); MaxServ, Inc. (7626); Private Brands, Ltd. (4022); Sears Development Co. (6028); Sears Holdings Management Corporation (2148); Sears Home & Business Franchises, Inc. (6742); Sears Home Improvement Products, Inc. (8591); Sears Insurance Services, L.L.C. (7182); Sears Procurement Services, Inc. (2859); Sears Protection Company (1250); Sears Protection Company (PR) Inc. (4861); Sears Roebuck Acceptance Corp. (0535); SR – Rover de Puerto Rico, LLC (f/k/a Sears, Roebuck de Puerto Rico, Inc.) (3626); SYW Relay LLC (1870); Wally Labs LLC (None); SHC Promotions LLC (9626); Big Beaver of Florida Development, LLC (None); California Builder Appliances, Inc. (6327); Florida Builder Appliances, Inc. (9133); KBL Holding Inc. (1295); KLC, Inc. (0839); Kmart of Michigan, Inc. (1696); Kmart of Washington LLC (8898); Kmart Stores of Illinois LLC (8897); Kmart Stores of Texas LLC (8915); MyGofer LLC (5531); Sears Brands Business Unit Corporation (4658); Sears Holdings Publishing Company, LLC. (5554); Sears Protection Company (Florida), L.L.C. (4239); SHC Desert Springs, LLC (None); SOE, Inc. (9616); StarWest, LLC (5379); STI Merchandising, Inc. (0188); Troy Coolidge No. 13, LLC (None); BlueLight.com, Inc. (7034); Sears Brands, L.L.C. (4664); Sears Buying Services, Inc. (6533); Kmart.com LLC (9022); Sears Brands Management Corporation (5365); and SRe Holding Corporation (4816). The location of the Debtors' corporate headquarters is 3333 Beverly Road, Hoffman Estates, Illinois 60179.

Interrogatories issued by MOAC Mall Holdings LLC ("MOAC") to the Buyer on May 17, 2019 (the "Interrogatories").

RESERVATION OF RIGHTS

1. The Buyer submits these responses and objections subject to, without intending to waive, and expressly preserving: (a) any objections as to the competence, relevance, materiality, privilege, and/or admissibility into evidence of any response herein; (b) the right to object to other discovery procedures involving or relating to the subject matter of the Interrogatories; and (c) the right to revise, correct, supplement or clarify the responses or any of the objections herein at any time.

2. The Buyer does not admit, adopt, or acquiesce in any factual or legal contention, assertion, assumption, characterization, or implication contained in the Interrogatories. By responding to the Interrogatories, the Buyer does not intend to waive, and does not waive, any defenses to the Interrogatories or any other demand or subpoena, or any case brought by MOAC or any other party.

3. Buyer intends no incidental or implied admissions by its responses to the Interrogatories. Whether the Buyer has answered or objected to any particular Interrogatory should not be interpreted as an admission that the Buyer accepts or admits the existence of any fact(s) set out or assumed by such Interrogatory, that such answer or objection constitutes admissible evidence or that requests for similar information will be treated in a similar fashion.

GENERAL OBJECTIONS

These General Objections are incorporation into each specific response below as if they were fully repeated therein.

1. The Buyer objects to the Interrogatories, including without limitation, the

"Definitions" and "Instructions" therein, to the extent they purport to impose on the Buyer obligations different from, broader than, or otherwise inconsistent with those imposed by the Federal Rules of Civil Procedure, the Federal Rules of Bankruptcy Procedure, the local rules of the United States Bankruptcy Court for the Southern District of New York, and/or any other rules, applicable case law, or other court orders governing the proper scope, timing, and extent of discovery in this proceeding. The Buyer further objects to the extent that such definitions or instructions purport to enlarge, expand, or alter in any way the plain meaning and scope of any specific Interrogatory where such enlargement, expansion, or alteration renders the Interrogatory vague, ambiguous, overbroad, unduly burdensome, harassing, or incomprehensible, or where such enlarged, expanded, or altered Interrogatory seeks information that is not relevant to the claim or defense of any party.

2. The Buyer objects to the Interrogatories to the extent they seek information not in the Buyer's possession, custody, or control and/or not obtainable by means of a reasonably diligent search, including, without limitation, information from documents or things that are not maintained by the Buyers in the ordinary course of business, or that are not reasonably accessible due to undue burden or cost.

3. The Buyer objects to the Interrogatories to the extent they seek legal conclusions or require the Buyer to form a legal conclusion in order to provide a response.

4. The Buyer objects to the Interrogatories to the extent they seek information not relevant to the subject matter of this pending matter or to the claims or defenses of any party, not proportional to the needs of the pending matter, or otherwise outside the proper scope of discovery, and/or constitute an improper "fishing expedition."

5. The Buyer objects to the Interrogatories to the extent they seek the disclosure of

information that was prepared in anticipation of litigation; constitutes attorney work product; discloses the mental impressions, conclusions, opinions, or legal theories of any attorneys for the Buyer; contains confidential attorney-client communications; is subject to a common interest privilege; and/or is otherwise privileged, protected, or subject to exemption from disclosure under any applicable privileges, laws, or rules. If any privileged information is disclosed pursuant to the Interrogatories, the disclosure is inadvertent and the privilege is not waived.

6. The Buyer objects to the Interrogatories to the extent they seek information beyond the scope of what was maintained in the ordinary course of business, as irrelevant and disproportionate to the needs of the pending matter. The above-captioned matter relates to a 1991 lease regarding the property located at 2000 NE Court, Bloomington Minnesota.

7. The Buyer objects to the Interrogatories as unduly burdensome to the extent that the information requested is within the knowledge of MOAC or is within the public domain or otherwise equally available to MOAC and the Buyer and thus more conveniently obtained from MOAC's own files or other sources.

8. The Buyer objects to the Interrogatories to the extent they seek the production of documents in violation of Rule 33 of the Federal Rules of Civil Procedure and Bankruptcy Rule 7033. Further, the Buyer objects to the definition of "document" as overbroad, unduly burdensome and irrelevant as the definition of "document" does not apply to any of MOAC's Interrogatories. The Buyer's responses will comply with the requirements of the Federal Rules of Civil Procedure.

9. The Buyer objects to the definition of "and" and "or" as vague, ambiguous, overbroad and unduly burdensome.

10. The Buyer objects to the Interrogatories insofar as they seek the production of "all" or "any" information concerning any given subject, on the ground that it is impracticable and

otherwise unduly burdensome for the Buyer to locate and review every conceivable responsive document, even documents stored electronically. The Buyer's responses will comply with the requirements of the Federal Rules of Civil Procedure.

11. The Buyer objects to the definition of "assignee" as vague, ambiguous, overbroad and unduly burdensome.

12. The Buyer objects to the definition of "communication" as overbroad and unduly burdensome to the extent it requires the Buyer to search for and produce information conveyed by, *inter alia*, direct conversations, dialogues, discussions, interviews, telegrams, telexes, and cables.

13. The Buyer objects to the definition of "Buyer," "Sears," "you," or "your" as vague, ambiguous, overbroad and unduly burdensome.

14. The Buyer objects to the definition of "describe" as vague, ambiguous, overbroad and unduly burdensome.

15. The Buyer objects to the numerous definitions of "identify" as duplicative, overbroad and unduly burdensome to the extent these definitions impose a burden not required under the Federal Rules of Civil Procedure, Federal Rules of Bankruptcy Procedure, and/or any other rules, applicable case law, or other court orders. The Buyer further objects to the numerous definitions of "identify" as irrelevant and incomprehensible to the extent that they do not pertain to any of MOAC's Interrogatories. The Buyer's responses will comply with the requirements of the Federal Rules of Civil Procedure.

16. The Buyer objects to the definition of "lease" as vague, ambiguous, overbroad and unduly burdensome. As relates to the above-captioned matter, the Buyer defines "lease" to refer to the ground lease for the property located at 2000 NE Court, Bloomington Minnesota.

17. The Buyer objects to the definition of "MOAC" as overbroad and unduly

burdensome. The Buyer further objects to the extent that the definition calls for a legal conclusion.

18. The Buyer objects to the definition of "person" as vague, ambiguous, overbroad and unduly burdensome.

19. The Buyer objects to the definition of "relating to" as vague, ambiguous, overbroad, unduly burdensome and irrelevant and incomprehensible to the extent that they do not pertain to any of MOAC's Interrogatories.

20. The Buyer objects to Instruction number 2 to the extent it imposes a burden not required under the Federal Rules of Civil Procedure, Federal Rules of Bankruptcy Procedure, and/or any other rules, applicable case law, or other court orders. The Buyer's responses will comply with the requirements of the Federal Rules of Civil Procedure.

OBJECTIONS AND RESPONSES TO SPECIFIC INTERROGATORIES

Subject to and without waiving the above General Objections, the Buyer objects and/or responds to each specific Interrogatory as follows:

INTERROGATORY NO. 1

Identify all persons answering or assisting in answering these interrogatories.

RESPONSE TO INTERROGATORY NO. 1

Subject to and without waiving the General Objections, Jane Borden answered these Interrogatories with the assistance of Buyer's counsel, [and the responses to the Interrogatories are based upon her personal knowledge and her review of relevant documents provided by the Buyer's agents].

INTERROGATORY NO. 2

For each request for admission not fully admitted in response to MOAC Mall Holdings LLC's Requests for Admission from Transform Holdco LLC, served with these interrogatories,

please describe the explanation for your response.

RESPONSE TO INTERROGATORY NO. 2

In addition to the foregoing General Objections, the Buyer objects to this Interrogatory as irrelevant, vague and ambiguous, unduly burdensome, and disproportionate to the needs of the pending matter. In accordance with Federal Rule of Civil Procedure 33(d), the answer to this Interrogatory may be derived from inspection of business records produced to date and the Buyer's Reply.

INTERROGATORY NO. 3

Describe the financial condition of Sears on or about May 30, 1991.

RESPONSE TO INTERROGATORY NO. 3

In addition to the foregoing General Objections, Buyer objects to the extent that the information sought by this Interrogatory regarding the financial condition of Sears on or about May 30, 1991 is within the public domain or otherwise equally available to MOAC and Buyer. *See* Sears, Roebuck & Co., Annual Report (Form 10-K) (Mar. 31, 1992); Sears, Roebuck & Co., Quarterly Report for the Quarterly Period Ended June 30, 1991 (Form 10-Q) (Aug. 16, 1991).

INTERROGATORY NO. 4

Describe the operating performance of Sears on or about May 30, 1991.

RESPONSE TO INTERROGATORY NO. 4

In addition to the foregoing General Objections, the Buyer objects to the extent that the information sought by this Interrogatory regarding the financial condition of Sears on or about May 30, 1991 is within the public domain or otherwise equally available to MOAC and the Buyer. *See* Sears, Roebuck & Co., Annual Report (Form 10-K) (Mar. 31, 1992); Sears, Roebuck & Co., Quarterly Report for the Quarterly Period Ended June 30, 1991 (Form 10-Q) (Aug. 16, 1991).

INTERROGATORY NO. 5

Describe the current financial condition of the Assignee.

RESPONSE TO INTERROGATORY NO. 5

Subject to and without waiving the foregoing General Objections and in accordance with Federal Rule of Civil Procedure 33(d), the answer to this Interrogatory may be derived from inspection of the consolidated business records and agreements produced to date and the Buyer's Reply.

INTERROGATORY NO. 6

Describe the current operating performance of the Assignee.

RESPONSE TO INTERROGATORY NO. 6

Subject to and without waiving the foregoing General Objections and in accordance with Federal Rule of Civil Procedure 33(d), the answer to this Interrogatory may be derived from inspection of business records produced to date and the Buyer's Reply.

INTERROGATORY NO. 7

Describe Assignee's proposed use for the Leased Space, including, but not limited to the identification of proposed tenant or tenants, which portion, if not all, of the Lease Space each tenant would use, and when that portion would be occupied by the proposed tenant and open to Mall of America customers.

RESPONSE TO INTERROGATORY NO. 7

Subject to and without waiving the foregoing General Objections, the Buyer intends to take the assignment of the Lease subject to all of its terms and sublease all three floors of Sears' space at the Mall.

[Remainder of page left intentionally blank.]

Dated: July 26, 2019

New York, New York

/s/ Richard A. Chesley

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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	:	
	:	**Chapter 11**
SEARS HOLDINGS CORPORATION, *et al.*,	:	
	:	**Case No. 18-23538 (RDD)**
	:	
Debtors.[1]	:	**(Jointly Administered)**

TRANSFORM HOLDCO'S OBJECTIONS AND RESPONSES TO
MOAC MALL HOLDINGS LLC'S REQUESTS FOR ADMISSION FROM THE BUYER

Pursuant to Federal Rule of Civil Procedure 36 and Federal Rule of Bankruptcy Procedure 7036, Transform Holdco LLC (the "Buyer") respectfully responds and objects as follows to the

[1] The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are as follows: Sears Holdings Corporation (0798); Kmart Holding Corporation (3116); Kmart Operations LLC (6546); Sears Operations LLC (4331); Sears, Roebuck and Co. (0680); ServiceLive Inc. (6774); SHC Licensed Business LLC (3718); A&E Factory Service, LLC (6695); A&E Home Delivery, LLC (0205); A&E Lawn & Garden, LLC (5028); A&E Signature Service, LLC (0204); FBA Holdings Inc. (6537); Innovel Solutions, Inc. (7180); Kmart Corporation (9500); MaxServ, Inc. (7626); Private Brands, Ltd. (4022); Sears Development Co. (6028); Sears Holdings Management Corporation (2148); Sears Home & Business Franchises, Inc. (6742); Sears Home Improvement Products, Inc. (8591); Sears Insurance Services, L.L.C. (7182); Sears Procurement Services, Inc. (2859); Sears Protection Company (1250); Sears Protection Company (PR) Inc. (4861); Sears Roebuck Acceptance Corp. (0535); SR – Rover de Puerto Rico, LLC (f/k/a Sears, Roebuck de Puerto Rico, Inc.) (3626); SYW Relay LLC (1870); Wally Labs LLC (None); SHC Promotions LLC (9626); Big Beaver of Florida Development, LLC (None); California Builder Appliances, Inc. (6327); Florida Builder Appliances, Inc. (9133); KBL Holding Inc. (1295); KLC, Inc. (0839); Kmart of Michigan, Inc. (1696); Kmart of Washington LLC (8898); Kmart Stores of Illinois LLC (8897); Kmart Stores of Texas LLC (8915); MyGofer LLC (5531); Sears Brands Business Unit Corporation (4658); Sears Holdings Publishing Company, LLC. (5554); Sears Protection Company (Florida), L.L.C. (4239); SHC Desert Springs, LLC (None); SOE, Inc. (9616); StarWest, LLC (5379); STI Merchandising, Inc. (0188); Troy Coolidge No. 13, LLC (None); BlueLight.com, Inc. (7034); Sears Brands, L.L.C. (4664); Sears Buying Services, Inc. (6533); Kmart.com LLC (9022); Sears Brands Management Corporation (5365); and SRe Holding Corporation (4816). The location of the Debtors' corporate headquarters is 3333 Beverly Road, Hoffman Estates, Illinois 60179.

Requests for Admissions (the "RFAs") issued by MOAC Mall Holdings LLC ("MOAC") to Debtors on May 17, 2019.

RESERVATION OF RIGHTS

1. The Buyer submits these responses and objections subject to, without intending to waive, and expressly preserving: (a) any objections as to the competence, relevance, materiality, privilege, and/or admissibility into evidence of any response herein; (b) the right to object to other discovery procedures involving or relating to the subject matter of the RFAs; and (c) the right to revise, correct, supplement or clarify the responses or any of the objections herein at any time.

2. The Buyer does not admit, adopt, or acquiesce in any factual or legal contention, assertion, assumption, characterization, or implication contained in the RFAs. By responding to the RFAs, the Buyer does not intend to waive, and does not waive, any defenses to the RFAs or any other demand or subpoena, or any case brought by MOAC or any other party.

3. Buyer intends no incidental or implied admissions by its responses to the RFAs. Whether the Buyer has answered or objected to any particular RFA should not be interpreted as an admission that the Buyer accepts or admits the existence of any fact(s) set out or assumed by such RFA, that such answer or objection constitutes admissible evidence or that requests for similar information will be treated in a similar fashion.

GENERAL OBJECTIONS

These General Objections are incorporated into each specific response below as if they were fully repeated therein.

1. The Buyer objects to the RFAs, including without limitation, the "Definitions" and "Instructions" therein, to the extent they purport to impose on the Buyer obligations different from, broader than, or otherwise inconsistent with those imposed by the Federal Rules of Civil

Procedure, the Federal Rules of Bankruptcy Procedure, the local rules of the United States Bankruptcy Court for the Southern District of New York, and/or any other rules, applicable case law, or other court orders governing the proper scope, timing, and extent of discovery in this proceeding. The Buyer further objects to the extent that such definitions or instructions purport to enlarge, expand, or alter in any way the plain meaning and scope of any specific RFA where such enlargement, expansion, or alteration renders the RFA vague, ambiguous, overbroad, unduly burdensome, harassing, or incomprehensible, or where such enlarged, expanded, or altered RFA seeks information that is not relevant to the claim or defense of any party.

2. The Buyer objects to the RFAs to the extent they seek information not in the Buyer's possession, custody, or control and/or not obtainable by means of a reasonably diligent search, including, without limitation, information from documents or things that are not maintained by the Buyers in the ordinary course of business, or that are not reasonably accessible due to undue burden or cost.

3. The Buyer objects to the RFAs to the extent they seek legal conclusions or require the Buyer to form a legal conclusion in order to provide a response.

4. The Buyer objects to the RFAs to the extent they seek information not relevant to the subject matter of this pending matter or to the claims or defenses of any party, not proportional to the needs of the pending matter, or otherwise outside the proper scope of discovery, and/or constitute an improper "fishing expedition."

5. The Buyer objects to the RFAs to the extent they seek the disclosure of information that was prepared in anticipation of litigation; constitutes attorney work product; discloses the mental impressions, conclusions, opinions, or legal theories of any attorneys for the Buyer; contains confidential attorney-client communications; is subject to a common interest privilege;

and/or is otherwise privileged, protected, or subject to exemption from disclosure under any applicable privileges, laws, or rules. If any privileged information is disclosed pursuant to the RFAs, the disclosure is inadvertent and the privilege is not waived.

6. The Buyer objects to the RFAs to the extent they seek information beyond the scope of what was maintained in the ordinary course of business, as irrelevant and disproportionate to the needs of the pending matter. The above-captioned matter relates to a 1991 lease regarding the property located at 2000 NE Court, Bloomington Minnesota.

7. The Buyer objects to the RFAs as unduly burdensome to the extent that the information requested is within the knowledge of MOAC or is within the public domain or otherwise equally available to MOAC and the Buyer and thus more conveniently obtained from MOAC's own files or other sources.

8. The Buyer objects to the definition of "and" and "or" as vague, ambiguous, overbroad and unduly burdensome.

9. The Buyer objects to the RFAs insofar as they seek the production of "all" or "any" information concerning any given subject, on the ground that it is impracticable and otherwise unduly burdensome for the Buyer to locate and review every conceivable responsive document, even documents stored electronically. The Buyer's responses will comply with the requirements of the Federal Rules of Civil Procedure.

10. The Buyer objects to the definition of "assignee" as vague, ambiguous, overbroad and unduly burdensome.

11. The Buyer objects to the definition of "communication" as overbroad and unduly burdensome and irrelevant as it fails to relate to any RFA.

12. The Buyer objects to the definition of "lease" as vague, ambiguous, overbroad and

unduly burdensome. As relates to the above-captioned matter, the Buyer defines "lease" to refer to the ground lease for the property located at 2000 NE Court, Bloomington Minnesota.

13. The Buyer objects to the definition of "relating to" as vague, ambiguous, overbroad, unduly burdensome and irrelevant and incomprehensible to the extent that they do not pertain to any of MOAC's RFAs.

OBJECTIONS AND RESPONSES TO SPECIFIC RFAS

Subject to and without waiving the above General Objections, the Buyer objects and/or responds to each specific RFA as follows:

RFA NO. 1

Admit that Mall of America is a mall and shopping center, as shopping center is understood to mean with regard to 11 U.S.C. § 365(b)(3).

RESPONSE TO RFA NO. 1

Subject to and without waiving the General Objections, the Buyer admits that Mall of America is a mall and shopping center, as shopping center is understood to mean with regard to 11 U.S.C. § 365(b)(3).

RFA NO. 2

Admit that Sears entered into the Lease with MOAC for the Leased Space in Mall of America on May 30, 1991.

RESPONSE TO RFA NO. 2

Subject to and without waiving the General Objections, the Buyer admits that, based upon reasonable inquiry, Sears entered into the Lease with MOAC for the Leased Space in Mall of America on May 30, 1991.

RFA NO. 3

Admit that Sears operated a retail store in all three floors of the Leased Space from the date Mall of America opened, on or about August 11, 1992, until the store discontinued operations in connection with the above captioned bankruptcy.

RESPONSE TO RFA NO. 3

In addition to the foregoing General Objections, the Buyer objects to this RFA because it is irrelevant and fails to relate to the inquiry. Notwithstanding the foregoing, subject to and without waiving the General Objections, the Buyer admits that Sears operated a retail store in all three floors of the Leased Space from the date Mall of America opened, on or about August 11, 1992, until the store discontinued operations in connection with the above captioned bankruptcy. The Buyer's response is based on publicly available information and the Buyer reserves its rights to supplement or amend this response.

RFA NO. 4

Admit that there is currently no retail or other tenant operating any service open to Mall of America customers in the Leased Space.

RESPONSE TO RFA NO. 4

Subject to and without waiving the General Objections, the Buyer admits that there is currently no retail or other tenant operating any service open to Mall of America customers in the Leased Space.

RFA NO. 5

Admit that the financial condition of the Assignee is not similar to or better than the financial condition of Sears on or about May 30, 1991.

RESPONSE TO RFA NO. 5

In addition to the foregoing General Objections, the Buyer objects to the use of "similar to or better" in this RFA because it is vague and ambiguous, not defined anywhere in the RFA, and seeking a legal conclusion regarding an ultimate issue in the case. Buyer further objects to this RFA as the financial condition or operating performance of Sears on or about May 30, 1991 is within the public domain or is otherwise equally available to MOAC and Buyer, and MOAC can therefore draw its own conclusions. *See* Sears, Roebuck & Co., Annual Report (Form 10-K) (Mar. 31, 1992); Sears, Roebuck & Co., Quarterly Report for the Quarterly Period Ended June 30, 1991 (Form 10-Q) (Aug. 16, 1991).

RFA NO. 6

Admit that the operating performance of the Assignee is not similar to or better than the operating performance of Sears on or about May 30, 1991.

RESPONSE TO RFA NO. 6

In addition to the foregoing General Objections, the Buyer objects to the use of "similar to or better" because it is vague and ambiguous, , and seeks a legal conclusion regarding an ultimate issue in the case. Buyer further objects to this RFA as the financial condition or operating performance of Sears on or about May 30, 1991 is within the public domain or is otherwise equally available to MOAC and Buyer, and MOAC can therefore draw its own conclusions. *See* Sears, Roebuck & Co., Annual Report (Form 10-K) (Mar. 31, 1992); Sears, Roebuck & Co., Quarterly Report for the Quarterly Period Ended June 30, 1991 (Form 10-Q) (Aug. 16, 1991).

RFA NO. 7

Admit that neither you nor, to the best of your knowledge, the Debtor have provided information regarding the financial condition or operating performance of Sears on or about May

30, 1991, to MOAC or the Court in support of the pending motion to assume and assign the Lease.

RESPONSE TO RFA NO. 7

The Buyer lacks sufficient information to admit or deny this request. In addition to the foregoing General Objections, the Buyer objects to this RFA as the financial condition or operating performance of Sears on or about May 30, 1991 is within the public domain, and MOAC can therefore draw its own conclusions. *See* Sears, Roebuck & Co., Annual Report (Form 10-K) (Mar. 31, 1992); Sears, Roebuck & Co., Quarterly Report for the Quarterly Period Ended June 30, 1991 (Form 10-Q) (Aug. 16, 1991).

RFA NO. 8

Admit that the Assignee proposes to operate with a "smaller footprint" of fewer stores, as described in Doc. No. 3654, than the Debtor operated on or about May 30, 1991.

RESPONSE TO RFA NO. 8

Subject to and without waiving the General Objections, the Buyer admits that the Assignee proposes to operate with a "smaller footprint" of fewer stores, as described in Doc. No. 3654, than the Debtor operated on or about May 30, 1991.

RFA NO. 9

Admit that you do not currently plan for Transform Leaseco LLC to operate as a retail distributor.

RESPONSE TO RFA NO. 9

In addition to the foregoing General Objections, the Buyer objects to the definition of "distributor" as vague, ambiguous, overbroad and unduly burdensome. Buyer further objects to this RFA to the extent that it fails to distinguish Transform Leaseco LLC from other affiliates of the Buyer.

RFA NO. 10

Admit that any Assignee annual retail sales are less than the annual retail sales of Sears on or about May 30, 1991.

RESPONSE TO RFA NO. 10

In addition to the foregoing General Objections, the Buyer objects to this RFA as irrelevant, vague and ambiguous, unduly burdensome, and disproportionate to the needs of the pending matter. Buyer further objects to this RFA to the extent that it fails to distinguish Transform Leaseco LLC from other affiliates of the Buyer. Notwithstanding the foregoing, subject to and without waiving the General Objections, the Buyer admits that any Assignee annual retail sales are less than the annual retail sales of Sears on or about May 30, 1991.

RFA NO. 11

Admit that neither you nor the Assignee propose to operate any retail store in the Leased Space without subletting or assigning the Lease to another entity.

RESPONSE TO RFA NO. 11

Subject to and without waiving the General Objections, the Buyer admits that the Buyer intends to adhere to the provision of the Lease and sublet and/or assign the Lease or portions thereof.

RFA NO. 12

Admit that you have not provided to MOAC or the Court the identity, financial condition, or operating performance of any proposed tenant that would operate a retail store in the Leased Space in support of the pending motion to assume and assign the Lease.

RESPONSE TO RFA NO. 12

In addition to the foregoing General Objections, the Buyer objects to this RFA as irrelevant, vague and ambiguous, unduly burdensome, and disproportionate to the needs of the pending matter. Buyer also objects to the definition of "tenant" as vague, ambiguous, overbroad and unduly burdensome. Notwithstanding the foregoing, subject to and without waiving the General Objections, the Buyer admits that due to the circumstances of the Objections and the efforts of MOAC to hinder the efforts to sublease or assign the Lease, at the present time no proposed tenant(s) has been selected.

RFA NO. 13

Admit that you have not provided any assurance that all three floors of the Leased Space will be open to Mall of America customers for retail shopping within a reasonable period if the Court approves the pending motion to assume and assign the Lease.

RESPONSE TO RFA NO. 13

Subject to and without waiving the General Objections, the Buyer denies that the Buyer has not provided any assurance that all three floors of the Leased Space will be open to Mall of America customers for retail shopping within a reasonable period if the Court approves the pending motion to assume and assign the Lease.

RFA NO. 14

Admit that assumption and assignment of the Lease is not necessary to support Transform's retail operations for Transform to maintain its financial condition.

RESPONSE TO RFA NO. 14

In addition to the foregoing General Objections, the Buyer objects to this RFA as irrelevant, vague and ambiguous in its use of the term "necessary", unduly burdensome, and disproportionate to the needs of the pending matter.

RFA NO. 15

Admit that Transform's retail operations are not sufficient to maintain Transform's financial condition, which is dependent upon assumption and assignment of the Lease.

RESPONSE TO RFA NO. 15

In addition to the foregoing General Objections, the Buyer objects to this RFA as irrelevant, vague and ambiguous in its use of the term "sufficient", unduly burdensome, and disproportionate to the needs of the pending matter.

Dated: July 26, 2019
New York, New York

/s/ Richard A. Chesley
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Telephone (212) 335-4500
Richard A. Chesley
R. Craig Martin
Rachel Ehrlich Albanese

Attorneys for Transform Holdco LLC

Exhibit 14 - MOAC

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-K

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Fiscal Year Ended February 3, 2018
or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission file number 000-51217, 001-36693

SEARS HOLDINGS CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**20-1920798**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**
3333 Beverly Road, Hoffman Estates, Illinois	**60179**
(Address of principal executive offices)	**(Zip Code)**

Registrant's Telephone Number, Including Area Code: (847) 286-2500

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	**The NASDAQ Stock Market**
Warrants to Purchase Common Stock	**The NASDAQ Stock Market**

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such response) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer (Do not check if a smaller reporting company) ☐

Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

On March 16, 2018, the registrant had 107,957,410 shares of common stock outstanding. The aggregate market value (based on the closing price of the Registrant's common stock for stocks quoted on the NASDAQ Global Select Market) of shares of the Registrant's common stock owned by non-affiliates as of the last business day of the Registrant's most recently completed second fiscal quarter, was approximately $200 million.

Documents Incorporated By Reference

Part III of this Form 10-K incorporates by reference certain information from the Registrant's definitive proxy statement relating to our Annual Meeting of Stockholders to be held on May 9, 2018 (the "2018 Proxy Statement"), which will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Form 10-K relates.

Exhibit
14-MOAC

PART I

Item 1. Business

General

Sears Holdings Corporation ("Holdings") is the parent company of Kmart Holding Corporation ("Kmart") and Sears, Roebuck and Co. ("Sears"). Holdings (together with its subsidiaries, "we," "us," "our," or the "Company") was formed as a Delaware corporation in 2004 in connection with the merger of Kmart and Sears (the "Merger") on March 24, 2005. We are an integrated retailer with significant physical and intangible assets, as well as virtual capabilities enabled through technology. At February 3, 2018, we operated a national network of stores with 1,002 full-line and specialty retail stores in the United States operating through Kmart and Sears. Further, we operate a number of websites under the sears.com and kmart.com banners which offer millions of products and provide the capability for our members and customers to engage in cross-channel transactions such as *free store pickup; buy in store/ship to home; and buy online, return in store.*

We are also the home of Shop Your Way®, a free membership program that connects its members to personalized products, programs and partners that help them save time and money every day. Through an extensive network of national and local partners, members can shop thousands of their favorite brands, dine out and access an array of exclusive partners like Uber® and fuboTV® to earn CASHBACK in points to redeem for savings on future purchases at Sears, Kmart, Lands' End and at ShopYourWay.com. The Sears MasterCard with Shop Your Way® features an industry-leading 5-3-2-1 rewards offer, where members can earn rewards points on all purchases everywhere they shop.

The Company is a leading home appliance retailer, as well as a leader in tools, lawn and garden, fitness equipment, automotive repair and maintenance, and is a significant player in the rapidly emerging connected solutions market. We offer key proprietary brands including Kenmore® and DieHard®, as well as Craftsman® branded product offerings. Our Kenmore and DieHard brands are also now available on Amazon.com. We also maintain a broad apparel and home offering including such well-known labels as Jaclyn Smith®, Joe Boxer®, Route 66®, Cannon®, Adam Levine® and Levi's® and also offer Lands' End® merchandise in some of our Full-line stores. We are the nation's No. 1 provider of appliance and product repair services, with over five million service calls made annually.

The retail industry is changing rapidly. The progression of the Internet, mobile technology, social networking and social media is fundamentally reshaping the way we interact with our core customers and members. As a result, we are transitioning to a member-centric company. Our focus continues to be on our core customers, our members, and finding ways to provide them value and convenience through Integrated Retail and our Shop Your Way membership platform. We have invested significantly in our membership program, our online ecommerce platforms and the technology needed to support these initiatives.

Business Segments

We operate in two reportable segments, Kmart and Sears Domestic. Financial information, including revenues, operating loss, total assets and capital expenditures for each of these business segments is contained in Note 17 of Notes to Consolidated Financial Statements. Information regarding the components of revenue for Holdings is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations as well as Note 17 of Notes to Consolidated Financial Statements.

Kmart

At February 3, 2018, the Company operated a total of 432 Kmart stores across 47 states, Guam, Puerto Rico and the U.S. Virgin Islands. This store count consists of 431 discount stores, averaging 94,000 square feet, and one Super Center, approximately 185,000 square feet. Most Kmart stores are one-floor, free-standing units that carry a wide array of products across many merchandise categories, including consumer electronics, seasonal merchandise, outdoor living, toys, lawn and garden equipment, food and consumables and apparel, including products sold under such well-known labels as Craftsman, Jaclyn Smith, Adam Levine, Joe Boxer, Basic Editions and certain proprietary Sears branded products (such as Kenmore and DieHard) and services. We also offer an assortment of major

appliances, including Kenmore-branded products, in all of our locations. There are 183 Kmart stores that also operate in-store pharmacies. The Super Center combines a full-service grocery along with the merchandise selection of a discount store. There are also three Sears Auto Centers operating in Kmart stores, offering a variety of professional automotive repair and maintenance services, as well as a full assortment of automotive accessories. Kmart offers a layaway program, which allows members and customers to cost-effectively finance their purchases both in-store and online. In addition, our members and customers have the ability to buy online and pick up in store via mygofer.com, kmart.com or shopyourway.com. Kmart also sells its products through its kmart.com website and provides members and customers enhanced cross-channel options such as buying through a mobile app or online and picking up merchandise in one of our Kmart or Sears Full-line stores.

Sears Domestic

At February 3, 2018, Sears Domestic operations consisted of the following:

- Full-line Stores—547 stores located across 49 states and Puerto Rico, primarily mall-based locations averaging 159,000 square feet. Full-line stores offer a wide array of products and service offerings across many merchandise categories, including appliances, consumer electronics/connected solutions, tools, sporting goods, outdoor living, lawn and garden equipment, certain automotive services and products, such as tires and batteries, home fashion products, as well as apparel, footwear, jewelry and accessories for the whole family. Our product offerings include our proprietary Kenmore, DieHard, WallyHome, Bongo, Covington, Simply Styled, Everlast, Metaphor, Roebuck & Co., Outdoor Life and Structure brand merchandise, and other brand merchandise such as Craftsman, Roadhandler and Levi's. Lands' End, Inc. continues to operate 151 "store within a store" departments inside Sears Domestic Full-line locations. We also have 423 Sears Auto Centers operating in association with Full-line stores. In addition, there are 19 free-standing Auto Centers that operate independently of Full-line stores. Sears extends the availability of its product selection through the use of its sears.com and shopyourway.com websites, which offer an assortment of home, apparel and accessory merchandise and provide members and customers the option of buying through a mobile app or online and picking up their merchandise in one of our Sears Full-line or Kmart stores.
- Specialty Stores—23 specialty stores (primarily consisting of the 19 free-standing Auto Centers noted above) located in free-standing, off-mall locations or high-traffic neighborhood shopping centers, including three DieHard Auto Centers - two in Detroit and one in San Antonio. Specialty stores also include Sears Appliances and Mattresses stores in Ft. Collins, Colorado, Camp Hill, Pennsylvania, Pharr, Texas and Honolulu, Hawaii.
- Commercial Sales—We sell Kenmore appliances to home builders and property managers through Kenmore Direct, the business-to-business sales organization of KCD Brands. Kenmore Direct operates using a number of sales channels including an Amazon Business sales account. We also sell a wide assortment of appliance brands including luxury brands, parts and services to builders, developers, designers, among other commercial and residential customers through Monark Premium Appliance Co., which includes California Builder Appliances, Inc. (d/b/a Monark Premium Appliance Co. of California), Florida Builder Appliances, Inc. (d/b/a Monark Premium Appliance Co.) and Starwest, LLC. (d/b/a Monark Premium Appliance Co. of Arizona).
- Home Services—Product Repair Services, the nation's No. 1 provider of appliance and product repair services, is a key element in our active relationship with nearly 30 million households. With approximately 5,200 service technicians making over five million service calls annually, this business delivers a broad range of retail-related residential and commercial services across all 50 states, Puerto Rico, Guam and the Virgin Islands under either the Sears Parts & Repair Services or A&E Factory Service trade names. Commercial and residential customers can obtain parts and repair services for all major brands of products within the appliances, lawn and garden equipment, consumer electronics, floor care products, and heating and cooling systems categories. We also provide repair parts with supporting instructions for "do-it-yourself" members and customers through our searspartsdirect.com website. This business also offers protection agreements, home warranties and Kenmore and Carrier brand residential heating and cooling systems. Home Services also includes home improvement services (primarily siding, windows, cabinet refacing, kitchen remodeling, roofing, carpet and upholstery cleaning, air duct

cleaning, and garage door installation and repair) provided through Sears Home Improvement and Sears Home & Business Franchises.

- Delivery and Installation—Provides both home delivery and retail installation services for Holdings' retail operations with over three million deliveries and installation calls made annually. Also includes Innovel Solutions, which provides delivery services for third party customers.

Real Estate Transactions

In the normal course of business, we consider opportunities to purchase leased operating properties, as well as offers to sell owned, or assign leased, operating and non-operating properties. These transactions may, individually or in the aggregate, result in material proceeds or outlays of cash. In addition, we review leases that will expire in the short term in order to determine the appropriate action to take.

Further information concerning our real estate transactions is contained in Note 11 of Notes to Consolidated Financial Statements.

Trademarks and Trade Names

The KMART® and SEARS® trade names, service marks and trademarks, used by us both in the United States and internationally, are material to our retail and other related businesses.

We sell proprietary branded merchandise under a number of brand names that are important to our operations. Our KENMORE® and DIEHARD® brands are among the most recognized proprietary brands in retailing. These marks are the subject of numerous United States and foreign trademark registrations. Other well recognized Company trademarks and service marks include ATHLETECH®, BLUELIGHT®, COVINGTON®, ROEBUCK & CO.®, SHOP YOUR WAY®, SMART SENSE®, STRUCTURE®, THOM MCAN®, and WALLY®, which also are registered or are the subject of pending registration applications in the United States. Generally, our rights in our trade names and marks continue so long as we use them.

Seasonality

The retail business is seasonal in nature, and we generate a high proportion of our revenues, operating income and operating cash flows during the fourth quarter of our year, which includes the holiday season. As a result, our overall profitability is heavily impacted by our fourth quarter operating results. Additionally, in preparation for the fourth quarter holiday season, we significantly increase our merchandise inventory levels, which are financed from operating cash flows, credit terms received from vendors and borrowings under our domestic credit agreement (described in the "Uses and Sources of Liquidity" section below). Fourth quarter reported revenues accounted for approximately 26% of total reported revenues in 2017, 27% of total reported revenues in 2016 and 29% of total reported revenues in 2015. See Note 19 of Notes to Consolidated Financial Statements for further information on revenues earned by quarter in 2017 and 2016.

Competition

Our business is subject to highly competitive conditions. We compete with a wide variety of retailers, including other department stores, discounters, home improvement stores, consumer electronics dealers, auto service providers, specialty retailers, wholesale clubs, as well as many other retailers operating on a national, regional or local level in the United States. Online and catalog businesses, which handle similar lines of merchandise, also compete with us. Walmart, Target, Kohl's, J.C. Penney, Macy's, The Home Depot, Lowe's, Best Buy and Amazon are some of the national retailers and businesses with which we compete. The Home Depot and Lowe's are major competitors in relation to our home appliance business, which accounted for approximately 16% of our 2017, 15% of our 2016 and 15% of our 2015 reported revenues. Success in these competitive marketplaces is based on factors such as price, product assortment and quality, service and convenience, including availability of retail-related services such as access to credit, product delivery, repair and installation. Additionally, we are influenced by a number of factors, including, but not limited to, the cost of goods, consumer debt availability and buying patterns, economic conditions, customer preferences, inflation, currency exchange fluctuations, weather patterns, and

catastrophic events. Item 1A in this Annual Report on Form 10-K contains further information regarding risks to our business.

Employees

At February 3, 2018, subsidiaries of Holdings had approximately 89,000 employees in the United States and U.S. territories. This employee count includes part-time employees.

Our Website; Availability of SEC Reports and Other Information

Our corporate website is located at searsholdings.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to these reports are available, free of charge, through the "SEC Filings" portion of the Investors Home section of our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC").

The Corporate Governance Guidelines of our Board of Directors, the charters of the Audit, Compensation and Nominating and Corporate Governance Committees of the Board of Directors, our Code of Conduct and the Board of Directors Code of Conduct are available in the "Corporate Governance" portion of the Investors Home section of searsholdings.com. References to our website address do not constitute incorporation by reference of the information contained on such website, and the information contained on the website is not part of this document.

Item 1A. Risk Factors

Our operations and financial results are subject to various risks and uncertainties, including those described below, which could adversely affect our business, results of operations and financial condition.

We cannot predict whether our plans to enhance our financial flexibility and liquidity to fund our transformation will be successful.

We are continuing to pursue a transformation strategy and to explore potential initiatives to enhance our financial flexibility and liquidity. We have incurred significant losses and experienced negative operating cash flows for the past several years, and accordingly we have taken a number of actions to fund our continued transformation and meet our obligations, including: the amendment and extension of our revolving credit facility; the extension of our first lien term loan facility from June 2018 to January 2019 (with a right on our part to further extend such maturity, subject to the satisfaction of certain conditions, to July 2019); the entrance into the first lien term loan facility due 2020, the second lien term loan facility due 2020 and the second lien line of credit loan facility due 2020, the amendment of the senior secured letter of credit facility; the extension of our real estate term loan facility from July 2017 to July 2018; the entrance into the real estate term loan facility due 2020, the incremental real estate term loan facility due 2018 and the intellectual property/ground lease term loan facility due 2020; the private exchange offers relating to our senior secured notes and senior unsecured notes, the negotiated exchanges of other indebtedness; the entrance into the REMIC real estate term loan facility due December 2018 and the REMIC mezzanine loan facility due 2020; the sale of the Craftsman brand; the rights offering and sale-leaseback transaction with Seritage Growth Properties; the separation of our Lands' End subsidiary; the Sears Canada rights offering; the rights offering for senior unsecured notes with warrants; and various real estate transactions. As a result, we are, and we expect to continue to be, highly leveraged. We expect to pursue other near-term actions to bolster liquidity. If we continue to incur losses, additional actions may be required to further enhance our financial flexibility and liquidity. The success of our initiatives is subject to risks and uncertainties with respect to market conditions and other factors that may cause our actual results, performance or achievements to differ materially from our plans. We cannot assure that cash flows and other internal and external sources of liquidity will at all times be sufficient for our cash requirements. If necessary, we may need to consider further actions and steps to improve our cash position, mitigate any potential liquidity shortfall, pursue additional sources of liquidity, and reduce costs. There can be no assurance that these actions would be successful. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. In addition, there can be no assurance that the evaluation and/or completion of any potential transactions will not have a negative impact on our other businesses.

We cannot predict the outcome of any actions to generate liquidity, whether such actions would generate the expected liquidity as currently planned, or the availability of additional debt financing. The specific actions taken or assets involved, the timing, and the overall amount will depend on a variety of factors, including market conditions, interest in specific assets, valuations of those assets and our underlying operating performance.

If we continue to experience operating losses and we are not able to generate additional liquidity through the mechanisms described above or through some combination of other actions, including real estate or other asset sales, while not expected, then our liquidity needs may exceed availability under our Amended Domestic Credit Agreement, our second lien line of credit loan facility and our other existing facilities, and we might need to secure additional sources of funds, which may or may not be available to us. If we are unable to secure such additional funds, we may not be able to meet our obligations as they become due. Additionally, a failure to generate additional liquidity could negatively impact our access to inventory or services that are important to the operation of our business.

Certain factors, including changes in market conditions and our credit ratings, may continue to limit our access to capital markets and other financing sources and materially increase our borrowing costs.

In addition to credit terms from vendors, our liquidity needs are funded by our operating cash flows and borrowings under our credit agreements and commercial paper program, asset sales and access to capital markets. The availability of financing depends on numerous factors, including economic and market conditions, our operating performance, our credit ratings, and lenders' assessments of our prospects and the prospects of the retail industry in

general. Changes in these factors may affect our cost of financing, liquidity and our ability to access financing sources, including our commercial paper program and possible second lien indebtedness that is permitted under the domestic revolving credit facility, with respect to each of which we have no lender commitments. Rating agencies revise their ratings for the companies that they follow from time to time. Several ratings agencies have previously downgraded the credit rating on certain of our outstanding debt instruments and may further downgrade or otherwise revise such ratings in the future. In addition, our ratings may be withdrawn in their entirety at any time.

The Company's domestic credit facility currently provides up to $2.5 billion of lender commitments, $1.5 billion of which are revolving commitments. Our ability to borrow funds under this facility is limited by a borrowing base determined by the value, from time to time, of eligible inventory and certain accounts receivable. The value of these eligible assets has not always been sufficient to support borrowings of up to the full amount of the commitments under this facility, and we have not always had full access to the facility, but rather have had access to a lesser amount determined by the borrowing base. A decline in the value of eligible assets has also resulted in our inability to borrow up to the full amount of second lien indebtedness permitted by the domestic credit facility as our second-lien borrowings are limited by a borrowing base requirement under the indenture that governs our senior secured notes due 2018. The domestic revolving credit facility imposes various other requirements, which take effect if availability falls below designated thresholds, including a cash dominion requirement. The domestic credit facility also effectively limits full access to the facility if our fixed charge ratio at the last day of any fiscal month is less than 1.0 to 1.0. As of February 3, 2018, our fixed charge ratio continues to be less than 1.0 to 1.0. If availability under the domestic revolving credit facility were to fall below 10%, the Company would be required to test the fixed charge coverage ratio, and would not comply with the facility, and the lenders under the facility could demand immediate payment in full of all amounts outstanding and terminate their obligations under the facility. In addition, the domestic credit facility provides that in the event we make certain prepayments of indebtedness, for a period of one year thereafter we must maintain availability under the facility of at least 12.5%, and it prohibits certain other prepayments of indebtedness. Moreover, if the borrowing base (as calculated pursuant to the indenture relating to our 6 5/8% senior secured notes due 2019, which were issued in March 2018 (the "New Senior Secured Notes")) falls below the principal amount of the New Senior Secured Notes plus the principal amount of any other indebtedness for borrowed money that is secured by liens on the collateral for the New Senior Secured Notes on the last day of any two consecutive quarters beginning with the second quarter of our 2018 fiscal year, it could trigger an obligation to offer to repurchase all outstanding New Senior Secured Notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest.

The lenders under our various credit facilities may not be able to meet their commitments if they experience shortages of capital and liquidity. Disruptions or turmoil in the financial markets could reduce our ability to meet our capital requirements. There can be no assurance that our ability to otherwise access the credit markets will not be adversely affected by changes in the financial markets and the global economy.

Our business results and ability to fund our transformation depend on our ability to achieve cost savings initiatives and complete our previously announced restructuring program.

In 2017, we initiated a restructuring program targeted to deliver at least $1.25 billion in annualized cost savings. Under the restructuring program, we reduced our corporate overhead, more closely integrated our Sears and Kmart operations and improved our merchandising, supply chain and inventory management. The savings also included cost reductions resulting from the closure of 303 Kmart and 132 Sears stores. In January 2018, we identified an additional $200 million of cost savings, unrelated to store closings. However, if we are unable to deliver the additional cost reductions, while continuing to invest in business growth, our financial results could be adversely impacted. Our ability to successfully manage and execute these initiatives and realize expected savings and benefits in the amounts and at the times anticipated is important to our business success, and any failure to do so, which could result from our inability to successfully execute plans, changes in global or regional economic conditions, competition, changes in the industries in which we compete, unanticipated costs or charges and other factors described herein, could adversely affect our business, financial condition and results of operations. As part of our overhead reduction, we have reduced our corporate and operations headcount, including management level, distribution and field employees. These reductions, as well as employee attrition, could result in the potential loss of specific knowledge relating to our company, operations and industry that could be difficult to replace. Also, we now operate with fewer employees, who have assumed additional duties and responsibilities. The restructuring program and workforce changes may negatively impact communication, morale, management cohesiveness and effective

decision-making, which could have an adverse impact on our business operations, customer experience, sales and results of operations.

The lack of willingness of our vendors to do business with us or to provide acceptable payment terms could negatively impact our liquidity and/or reduce the availability of products or services we seek to procure.

We depend on our vendors to provide us with financing on our purchases of inventory and services. From time to time, certain of our vendors have sought to limit the availability of vendor credit to us or to modify the other terms under which they sell to us, or both, which has negatively impacted our liquidity. In addition, the inability of vendors to access liquidity, or the insolvency of vendors, could lead to their failure to deliver inventory or other services. Certain of our vendors finance their operations and/or reduce the risk associated with collecting accounts receivable from us by selling or "factoring" the receivables or by purchasing credit insurance or other forms of protection from loss associated with our credit risks. The ability of our vendors to do so is subject to the perceived credit quality of the Company. Such vendors could be limited in their ability to factor receivables or obtain credit protection in the future because of our perceived financial position and creditworthiness, which could reduce the availability of products or services we seek to procure, increase the cost to us of those products and services, or both.

We have ongoing discussions concerning our liquidity and financial position with the vendor community and third parties that offer various credit protection services to our vendors. The topics discussed have included such areas as pricing, payment terms and ongoing business arrangements. As of the date of this report, we have not experienced any significant disruption in our access to merchandise or our operations due to vendors slowing or ceasing merchandise shipments or requiring or conditioning the sale or shipment of merchandise on new payment terms or other assurances. However, there can be no assurances that there will not be a future disruption, and such circumstances could have a negative effect on our business, financial condition and results of operations.

If we are unable to compete effectively in the highly competitive retail industry, our business and results of operations could be materially adversely affected.

The retail industry is highly competitive with few barriers to entry. We compete with a wide variety of retailers, including other department stores, discounters, home improvement stores, appliances and consumer electronics retailers, auto service providers, specialty retailers, wholesale clubs, online and catalog retailers and many other competitors operating on a national, regional or local level. Some of our competitors are actively engaged in new store expansion or increasing their online presence. Online and catalog businesses, which handle similar lines of merchandise, and some of which are not required to collect sales taxes on purchases made by their customers, also compete with us. Competition may intensify as competitors enter into business combinations or alliances. We also experience significant competition from promotional activities of our competitors, and some competitors may be able to devote greater resources to sourcing, promoting and selling their products. In this competitive marketplace, success is based on factors such as price, advertising, product assortment, quality, service, reputation and convenience.

Our success depends on our ability to differentiate ourselves from our competitors with respect to shopping convenience, a quality assortment of available merchandise, functionality of digital channels, and superior customer service and experience. We must also successfully respond to our members' and customers' changing tastes and expectations. The performance of our competitors, as well as changes in their pricing policies, marketing activities, new store openings, online presence, use of purchasing data and other business strategies, could have a material adverse effect on our business, financial condition and results of operations.

If we fail to offer merchandise and services that our members and customers want, our sales may be limited, which would reduce our revenues and profits.

In order for our business to be successful, we must identify, obtain supplies of, and offer to our members and customers, attractive, innovative and high-quality merchandise. Our products and services must satisfy the desires of our members and customers, whose preferences may change in the future. Our sales and operating results depend in part on our ability to predict consumer demand for products and services we sell, availability of merchandise, product trends, and our members' and customers' purchasing habits, tastes and preferences. If we misjudge these predictions, our relationship with our members and customers may be negatively impacted, and we may be faced with excess inventories of some products, which may impact our sales or require us to sell the merchandise we have obtained at lower prices, and missed opportunities for products and services we chose not to offer. In addition, merchandise misjudgments may adversely impact the perception or reputation of our company, which could result in declines in member and customer loyalty and vendor relationships. These factors could have a negative effect on our business, financial condition and results of operations.

If our integrated retail strategy to transform into a member-centric retailer is not successful, our business and results of operations could be adversely affected.

We are seeking to transform into a member-centric retailer through our integrated retail strategy, which is based on a number of initiatives, including our Shop Your Way program, that depend on, among other things, our ability to respond quickly to ongoing technology developments and implement new ways to understand and rely on the data to interact with our members and customers and our ability to provide attractive, convenient and consistent online and mobile experiences for our members. We must anticipate and meet our members' and customers' evolving expectations, while counteracting developments by our competitors and striving to deliver a seamless experience across all of our sales channels. We may need to adjust our strategic initiatives depending on our members' and customers' reactions to and level of engagement with our initiatives. Failure to execute these initiatives or provide our members with positive experiences may result in a loss of active members, failure to attract new members and lower than anticipated sales. There is no assurance that our initiatives and strategies will improve our operating results.

If we do not successfully manage our inventory levels, our operating results will be adversely affected.

We must maintain sufficient inventory levels to operate our business successfully. However, we also must guard against accumulating excess inventory as we seek to minimize out-of-stock levels across all product categories and to maintain in-stock levels. We obtain a significant portion of our inventory from vendors located outside the United States. Some of these vendors require lengthy advance notice of our requirements in order to be able to supply products in the quantities we request. This usually requires us to order merchandise, and enter into purchase order contracts for the purchase and manufacture of such merchandise, well in advance of the time these products will be offered for sale. As a result, we may experience difficulty in responding quickly to a changing retail environment, which makes us vulnerable to changes in price and demand. If we do not accurately anticipate the future demand for a particular product or the time it will take to obtain new inventory, our inventory levels will not be appropriate and our results of operations may be negatively impacted.

Our business has been and will continue to be affected by worldwide economic conditions; an economic downturn, a renewed decline in consumer-spending levels and other conditions, including inflation and changing prices of energy, could lead to reduced revenues and gross margins, and negatively impact our liquidity.

Many economic and other factors are outside of our control, including consumer and commercial credit availability, consumer confidence and spending levels, as well as the impact of payroll tax and medical cost increases on U.S. consumers, recession, inflation, deflation, employment levels, housing sales and remodels, interest rates, tax rates, rates of economic growth, fiscal and monetary government policies, consumer debt levels, consumer debt payment behaviors, fuel costs and other challenges currently affecting the global economy, the full impact of which on our business, results of operations and financial condition cannot be predicted with certainty. These economic conditions adversely affect the disposable income levels of, and the credit available to, our members and customers, which could lead to reduced demand for our merchandise. Increases in fuel and energy costs may have a

significant impact on our operations. We require significant quantities of fuel for the vehicles used by technicians in our home services business, and we are exposed to the risk associated with variations in the market price for petroleum products. We could experience a disruption in energy supplies, including our supply of gasoline, as a result of factors that are beyond our control, which could have an adverse effect on our business. Certain of our vendors also could experience increases in the cost of various raw materials, such as cotton, oil-related materials, steel and rubber, which could result in increases in the prices that we pay for merchandise, particularly apparel, appliances and tires. Domestic and international political events also affect consumer confidence. The threat, outbreak or escalation of terrorism, civil unrest, military conflicts or other hostilities could lead to a decrease in consumer spending. Any of these events and conditions could inhibit sales or cause us to increase inventory markdowns and promotional expenses, thereby reducing our gross margins.

Failure to execute effective advertising efforts may adversely impact our financial performance.

Effective advertising and marketing efforts play a crucial role in maintaining high customer traffic both in store and online. We are focused on developing new marketing initiatives and maintaining effective promotional strategies that target further growth in our business. Failure to execute effective advertising efforts to attract new customers or retain existing customers may adversely impact our financial performance.

Our business results may be negatively impacted as a result of the recapture rights included in the Master Leases in connection with the Seritage transaction and JV transactions.

In 2015, we entered into various sale-lease back transactions with respect to certain of our real properties with Seritage Growth Properties ("Seritage") and certain joint ventures we formed with affiliates of Simon Property Group, Inc., General Growth Properties, Inc. and the Macerich Company (collectively, the "JVs"). In connection with the Seritage transaction and JV transactions, Holdings entered into agreements with Seritage and the JVs pursuant to which Holdings leased 255 of the properties (the "Master Leases"). The Master Leases include recapture provisions that allow Seritage or the JVs, as applicable, to reclaim approximately 50% of the space within these properties (subject to certain exceptions, including reclamation rights as to 100% of the space at 21 properties, and further subject to a lease termination payment by Seritage), in addition to all of the automotive care centers which are free-standing or attached as "appendages," and all outparcels or outlots, as well as certain portions of parking areas and common areas. While we believe these provisions are generally beneficial for Holdings as they facilitate the transformation of our physical stores, potentially enable us to rationalize our footprint by reducing the space we occupy in a given location, and provide us with substantial flexibility in how we manage our store network moving forward, if we are unable to successfully manage and execute our plans to operate our stores in the smaller footprint, our business, financial condition and results of operations could be adversely impacted. Additionally, the recapture rights are within the control of Seritage and the JVs and we cannot predict the timing on which the recapture rights may be exercised, if at all, or whether the timing of any such exercise of these rights will align well with the timing of our transformation, which could create disruptions in our operations.

Potential liabilities in connection with the separations of Sears Hometown and Outlet Stores and Lands' End or other asset transactions may arise under fraudulent conveyance and transfer laws and legal capital requirements.

With respect to the separations of our Sears Hometown and Outlet Stores and Lands' End, Inc. subsidiaries, the sale of real estate assets to real estate investment trusts and other third parties, the sale of the Craftsman brand, and any future dispositions of other similar assets, if the Company, Lands' End, or any asset purchaser subsequently fails to pay its creditors or enters insolvency proceedings, the transaction may be challenged under U.S. federal, U.S. state and foreign fraudulent conveyance and transfer laws, as well as legal capital requirements governing distributions and similar transactions. If a court were to determine under these laws that, (a) at the time of the transaction, the entity in question: (1) was insolvent; (2) was rendered insolvent by reason of the transaction; (3) had remaining assets constituting unreasonably small capital; (4) intended to incur, or believed it would incur, debts beyond its ability to pay these debts as they matured; or (b) the transaction in question failed to satisfy applicable legal capital requirements, the court could determine that the transaction was voidable, in whole or in part. Subject to various defenses, the court could then require the Company, Lands' End, the respective purchaser, or other recipients of value in connection with any such transaction, as the case may be, to turn over value to other entities

involved in the transaction and contemplated transactions for the benefit of unpaid creditors. The measure of insolvency and applicable legal capital requirements will vary depending upon the jurisdiction whose law is being applied.

Certain dividend payments received by us from Sears Canada Inc., and other transactions involving Sears Canada Inc., may be subject to challenge.

In 2012 and 2013, we received dividend payments from our former subsidiary, Sears Canada Inc. ("Sears Canada") in the aggregate amount of $295 million. The payments of these dividends by Sears Canada, as well as "the surrender by Sears Canada of its exclusive right to use the Craftsman trademark in Canada in connection with the sale by Holdings of the Craftsman business to Stanley Black & Decker in March 2017," have been identified by the court-appointed monitor for Sears Canada in connection with its bankruptcy liquidation as potential "transactions of interest" subject to review. In addition, the Canadian bankruptcy court has appointed a litigation advisor to investigate and potentially recommend claims relating to dividend payments made by Sears Canada. In the event that a court of competent jurisdiction were to determine that any dividend payments made by, or other transactions involving, Sears Canada were subject to recapture, we could suffer financial liability, which could have a materially adverse impact on our liquidity or financial condition.

We rely extensively on computer systems to implement our integrated retail strategy, process transactions, summarize results and otherwise manage our business. Disruptions in these systems could harm our ability to run our business.

Given the significance of our online and mobile capabilities, our collection and use of data to create personalized experiences, and the number of individual transactions we have each year, including in our stores, it is critical that we maintain uninterrupted operation of our computer and communications hardware and software systems, some of which are based on end-of-life or legacy technology, operate with minimal or no vendor support and are otherwise difficult to maintain. Our systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, worms, other malicious computer programs, denial-of-service attacks, security breaches, catastrophic events such as fires, tornadoes, hurricanes, acts of terrorism and usage errors by our employees. If our systems are damaged, breached or cease to function properly, we may have to make a significant investment to repair or replace them, and we may suffer loss of critical data and interruptions or delays in our operations. Operating legacy systems subjects us to inherent costs and risks associated with maintaining, upgrading and replacing these systems and retaining sufficiently skilled personnel to maintain and operate the systems, demands on management time, and other risks and costs. Any material interruption in our computer operations may have a material adverse effect on our business or results of operations, including on our Shop Your Way program and participation in or engagement with that program. We are pursuing initiatives to transform our information technology processes and systems. These initiatives are highly complex and include replacing legacy systems, upgrading existing systems, and acquiring new systems and hardware with updated functionality. The risk of disruption is increased in periods when such complex and significant systems changes are undertaken.

If we do not maintain the security of our member and customer, associate or company information, we could damage our reputation, incur substantial additional costs and become subject to litigation.

The protection of member, customer, employee, and company data is critical to the Company. We have systems and processes in place that are designed to protect information and protect against security and data breaches as well as fraudulent transactions and other activities. Nevertheless, cyber-security risks such as malicious software and attempts to gain unauthorized access to data are rapidly evolving and becoming increasingly sophisticated. Techniques or software used to gain unauthorized access, and/or disable, degrade or harm our systems may be difficult to detect or scope for prolonged periods of time, and we may be unable to anticipate these techniques or put in place protective or preventive measures. These attempts to gain unauthorized access could lead to disruptions in our systems, unauthorized release of confidential or otherwise protected information or corruption of data. If individuals are successful in infiltrating, breaking into, disrupting, damaging or otherwise stealing from the computer systems of the Company or its third-party providers we may have to make a significant investment to fix or replace them, we may suffer interruptions in our operations in the interim, we may face costly litigation,

government investigations, government enforcement actions, fines and/or lawsuits, the ability for our members to earn or redeem points in our Shop Your Way program may be impacted or halted, and our reputation with our members and customers may be significantly harmed. There is no guarantee that the procedures that we have implemented to protect against unauthorized access to secured data are adequate to safeguard against all data security breaches. A data security breach or any failure by us to comply with applicable privacy and information security laws and regulations could result in a loss of customer or member confidence and negatively impact our business, including our Shop Your Way program, and our results of operations. Moreover, a data security breach could require us to devote significant management resources to address the problems created by the breach and to expend significant additional resources to upgrade further the security measures that we employ to guard against such breaches, which could disrupt our business, operations and financial condition.

We are subject to payment-related risks that could increase our operating costs, expose us to fraud or theft, subject us to potential liability and potentially disrupt our business operations.

As a retailer that accepts payments using a variety of methods, including credit and debit cards, PayPal, and gift cards, the Company is subject to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. The regulatory environment related to information security and privacy is increasingly rigorous, with new and constantly changing requirements applicable to our business, and compliance with those requirements could result in additional costs or accelerate these costs. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which could increase over time and raise our operating costs. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, and other forms of electronic payment. If these companies become unable to provide these services to us, or if their systems are compromised, it could disrupt our business.

The Payment Card Industry ("PCI") has established standards for securing payment card data through the PCI Data Security Standards ("DSS"). The Company is required to conduct an annual assessment with a PCI Qualified Security Assessor to assess compliance with the PCI DSS. Based on the 2016 assessment, the Company was determined to be non-compliant with PCI DSS. For 2017, we delivered 6 out of 7 compliant reports for PCI. The only outstanding report for automotive is to be delivered in the first quarter of 2018 as has been agreed upon with the relevant processor and card brands. While the Company took corrective actions which allowed it to regain compliance with PCI DSS, there can be no assurance that the Company will achieve compliance in the future. A failure to achieve compliance with PCI DSS could result in the incurrence of fines, penalties or other liabilities by the Company.

Due to the seasonality of our business, our annual operating results would be adversely affected to a heightened degree if our business performs poorly in the fourth quarter.

Due to the seasonality of our business, our operating results vary considerably from quarter to quarter. We generate a high proportion of revenues, operating income and operating cash flows during the fourth quarter of our year, which includes the holiday season. In addition, our Company incurs significant additional expenses for inventory, advertising and employees in the period leading up to the months of November and December in anticipation of higher sales volume in the fourth quarter. As a result, our fourth quarter operating results significantly impact our annual operating results. Our fourth quarter operating results may fluctuate significantly, based on many factors, including holiday spending patterns and weather conditions.

Our sales may fluctuate for a variety of reasons, which could adversely affect our results of operations.

Our business is sensitive to customers' spending patterns, which in turn are subject to prevailing economic conditions. Our sales and results of operations have fluctuated in the past, and we expect them to continue to fluctuate in the future. A variety of other factors affect our sales and financial performance, including:

- actions by our competitors, including opening of new stores in our existing markets or changes to the way these competitors go to market online;
- our ability to integrate and deliver an attractive online retail experience;
- seasonal fluctuations due to weather conditions;
- changes in our merchandise strategy and mix;

- changes in population and other demographics; and
- timing of our promotional events.

Accordingly, our results for any one quarter are not necessarily indicative of the results to be expected for any other quarter, and comparable store sales for any particular future period may increase or decrease. For more information on our results of operations, see Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Annual Report on Form 10-K.

We rely on foreign sources for significant amounts of our merchandise, and our business may therefore be negatively affected by the risks associated with international trade.

We depend on a large number of products produced in foreign markets. We face risks, including reputational risks, associated with sourcing, purchasing, and the delivery of merchandise originating outside the United States, including:

- potential economic and political instability in countries where our suppliers are located;
- increases in shipping costs;
- manufacturing and transportation delays and interruptions, including without limitation, delays and interruptions resulting from labor slowdowns, strikes, or other disruptions at any port where merchandise we purchase enters the U.S.;
- the availability of raw materials to suppliers;
- supplier financial instability;
- supplier compliance with applicable laws, including labor and environmental laws, and with our global compliance program for suppliers and factories;
- merchandise safety and quality issues, adverse fluctuations in currency exchange rates; and
- changes in U.S. and foreign laws affecting the importation and taxation of goods, including duties, tariffs and quotas, or changes in the enforcement of those laws.

U.S. foreign trade policies, trade restrictions, other impositions on imported goods, trade sanctions imposed on certain countries, the limitation on the importation of certain types of goods or of goods containing certain materials from other countries, and other factors relating to foreign trade are beyond our control. These and other factors affecting our suppliers and our access to products could adversely affect our results of operations.

We rely on third parties to provide us with services in connection with the administration of certain aspects of our business.

We have entered into agreements with third-party service providers (both domestic and overseas) to provide processing and administrative functions over a broad range of areas, and we may continue to do so in the future. These areas include finance and accounting, information technology, including IT development, call center, human resources and procurement functions. Services provided by third parties could be interrupted as a result of many factors, such as acts of God or contract disputes, and any failure by third parties to provide us with these services on a timely basis or within our service level expectations and performance standards could result in a disruption of our business. In addition, to the extent we are unable to maintain our outsourcing arrangements, we could incur substantial costs, including costs associated with hiring new employees or finding an alternative outsourced solution. Moreover, the Company cannot make any assurances that it would be able to arrange for alternate or replacement outsourcing arrangements on terms as favorable as the Company’s existing agreements, if at all. Any inability on the part of the Company to do so could negatively affect our results of operations. These outsourcing arrangements also carry the risk that the Company will fail to adequately retain the significant internal historical knowledge of our business and systems that is transferred to the service providers as the employment of the Company's personnel who possess such knowledge ends.

We could incur charges due to impairment of goodwill, intangible and long-lived assets.

At February 3, 2018, we had goodwill and intangible asset balances of $1.4 billion, which are subject to periodic testing for impairment. Our long-lived assets, primarily stores, also are subject to periodic testing for impairment. A significant amount of judgment is involved in the periodic testing. Failure to achieve sufficient levels of cash flow within our reporting unit, or sales of our branded products or cash flow generated from operations at

individual store locations could result in impairment charges for goodwill and intangible assets or fixed asset impairment for long-lived assets, which could have a material adverse effect on our reported results of operations. Impairment charges, if any, resulting from the periodic testing are non-cash. A significant decline in the property fair values could result in long-lived asset impairment charges. See Notes 12 and 13 of Notes to Consolidated Financial Statements for further information.

Our failure to attract or retain employees, including key personnel, may disrupt our business and adversely affect our financial results.

Our business is dependent on our ability to attract, develop, and retain qualified employees, many of whom are entry-level or part-time positions with historically high turnover rates. Our ability to meet our labor needs and control labor costs is subject to external factors such as unemployment levels, prevailing wage rates, collective bargaining efforts, health care and other benefit costs, changing demographics, and our reputation within the labor market. If we are unable to attract and retain adequate numbers and an appropriate mix of qualified employees, the quality of service we provide to our customers may decrease and our financial performance may be adversely affected. Further, we depend on the contributions of key personnel, including Edward S. Lampert, our Chairman and Chief Executive Officer, and other key employees, for our future success. Over the past several years, the departures of a number of our executive officers have caused disruptions to, and uncertainty in, our business and operations. Future changes in our senior management team or the departures of other key employees may further disrupt our business and materially adversely affect our results of operations.

Affiliates of our Chairman and Chief Executive Officer, whose interests may be different than your interests, exert substantial influence over our Company.

Affiliates of Edward S. Lampert, our Chairman and Chief Executive Officer, collectively own approximately 49% of the outstanding shares of our common stock at February 3, 2018. These affiliates are controlled, directly or indirectly, by Mr. Lampert. Accordingly, these affiliates, and thus Mr. Lampert, have substantial influence over many, if not all, actions to be taken or approved by our stockholders, including the election of directors and any transactions involving a change of control.

The interests of these affiliates, which have investments in other companies, including Seritage and our former subsidiaries, Sears Hometown and Outlet Stores, Inc., Lands' End, Inc. and Sears Canada, may from time to time diverge from the interests of our other stockholders, particularly with regard to new investment opportunities. This substantial influence may also have the effect of discouraging offers to acquire our Company because the consummation of any such acquisition would likely require the consent of these affiliates.

In addition, as of February 3, 2018, these affiliates collectively hold approximately $1.8 billion of our outstanding indebtedness. As long as these affiliates continue to hold significant amounts of our indebtedness, such affiliates' interests may be different than those of our other stockholders and debtholders.

We may be unable to protect or preserve the image of our brands and our intellectual property rights, which could have a negative impact on our business.

We regard our copyrights, service marks, trademarks, trade dress, trade secrets, patents and similar intellectual property as critical to our success, particularly those that relate to our private branded merchandise. As such, we rely on trademark and copyright law, patent law, trade secret protection and confidentiality agreements with our associates, consultants, vendors, and others to protect our proprietary rights. Nevertheless, the steps we take to protect our proprietary rights may be inadequate. If we are unable to protect or preserve the value of our trademarks, copyrights, trade secrets, patents or other proprietary rights for any reason, or if we fail to maintain the image of our brands due to merchandise and service quality issues, actual or perceived, adverse publicity, governmental investigations or litigation, or other reasons, our brands and reputation could be damaged and we could lose members and customers.

Our sales and operating results could be adversely affected by product safety concerns or claims concerning the services we offer.

If our merchandise offerings do not meet applicable safety standards or consumer expectations regarding safety, we could experience decreased sales, increased costs, and exposure to reputational risk and personal injury, death, or property damage claims related to such merchandise. Such matters may require us to take actions such as product recalls and could give rise to government enforcement actions. We also provide various services to our members and customers, which could also give rise to such claims and government actions. Although we maintain liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. Reputational damage caused by, and claims arising from, real or perceived product safety concerns or from the services we offer could negatively affect our business and results of operations.

We may be subject to periodic litigation and other regulatory proceedings. These proceedings may be affected by changes in laws and government regulations or changes in the enforcement thereof.

From time to time, we may be involved in lawsuits and regulatory actions relating to our business, certain of which may be in jurisdictions with reputations for aggressive application of laws and procedures against corporate defendants. Some of these actions have the potential for significant statutory penalties, and compensatory, treble or punitive damages. Our pharmacy, home services and grocery businesses, in particular, are subject to numerous federal, state and local regulations, and a significant change in, or noncompliance with, these regulations could have a material adverse effect on our compliance costs and results of operations. We are impacted by trends in litigation, including class-action allegations brought under various consumer protection and employment laws, including wage and hour laws, patent infringement claims, and investigations and actions that are based on allegations of untimely compliance or noncompliance with applicable regulations or statutes. Due to the inherent uncertainties of litigation and regulatory proceedings, we cannot accurately predict the ultimate outcome of any such proceedings. An unfavorable outcome could have a material adverse impact on our business, financial condition, and results of operations. In addition, regardless of the outcome of any litigation or regulatory proceedings, these proceedings could result in substantial costs and may require that we devote substantial resources to defend our Company. Further, changes in governmental regulations both in the United States and in the other countries where we operate could have adverse effects on our business and subject us to additional regulatory actions. For a description of current legal proceedings, see Item 3, Legal Proceedings, as well as Note 18 of Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

Our pension and postretirement benefit plan obligations are currently underfunded, and we may have to make significant cash payments to some or all of these plans, which would reduce the cash available for our businesses.

We have unfunded obligations under our domestic pension and postretirement benefit plans. The funded status of our pension plans is dependent upon many factors, including returns on invested assets, the level of certain market interest rates and the discount rate used to determine pension obligations. Unfavorable returns on the plan assets or unfavorable changes in applicable laws or regulations could materially change the timing and amount of required plan funding, which would reduce the cash available for our businesses. In addition, a decrease in the discount rate used to determine pension obligations could result in an increase in the valuation of pension obligations, which could affect the reported funding status of our pension plans and future contributions, as well as the periodic pension cost in subsequent years. Moreover, unfavorable regulatory action could materially change the timing and amount of required plan funding and negatively impact our business operations and impair our business strategy.

On March 18, 2016, we entered into a five-year pension plan protection and forbearance agreement (the “PPPFA”) with the Pension Benefit Guaranty Corporation ("PBGC"), pursuant to which the Company has agreed to continue to protect, or "ring-fence," pursuant to customary covenants, the assets of certain special purpose subsidiaries (the "Relevant Subsidiaries") holding real estate and/or intellectual property assets. Also under the agreement, the Relevant Subsidiaries granted PBGC a springing lien on the ring-fenced assets, which lien will be triggered only by (a) failure to make required contributions to the Company's pension plans (the "Plans"), (b)

prohibited transfers of ownership interests in the Relevant Subsidiaries, (c) termination events with respect to the Plans, or (d) bankruptcy events with respect to the Company or certain of its material subsidiaries.

In connection with the closing of our sale of the Craftsman brand, we agreed to grant the PBGC a lien on, and subsequently contribute to the Plans, the value of the $250 million cash payment payable to the Company on the third anniversary of the Craftsman closing. We subsequently sold the right to receive such payment to a third-party purchaser and deposited the proceeds from such sale into an escrow for the benefit of the Plans. We also granted a lien to the PBGC on the 15-year income stream relating to new Stanley Black & Decker sales of Craftsman products, and agreed to contribute the payments from Stanley Black & Decker under such income stream to the Plans. We also agreed to grant the PBGC a lien on $100 million of real estate assets to secure the Company's minimum pension funding obligations through the end of 2019, and agreed to certain other amendments to the PPPFA.

In November 2017, we entered into an amendment to the PPPFA that allowed the Company to pursue the monetization of 138 of our properties that were subject to a ring-fence arrangement created under the PPPFA. In March 2018, the Company closed on the Secured Loan and the Mezzanine Loan, which transactions released the properties from the ring-fence arrangement. The Company contributed approximately $282 million of the proceeds of such loans to our pension plans, and deposited $125 million into an escrow for the benefit of the Plans. Under our agreement with the PBGC, the escrowed amount will also be contributed to the Plans and, when so contributed, will be fully credited against the Company's minimum pension funding obligations in 2018 and 2019. Following such transactions, the Company has been relieved of contributions to the Plans for approximately two years (other than the contributions from escrow described above and a $20 million supplemental payment due in the second quarter of 2018). The ultimate amount of pension contributions could be affected by factors such as changes in applicable laws, as well as financial market and investment performance and demographic changes.

The Company will continue to make required contributions to the Plans, the scheduled amounts of which are not, other than as described above, affected by the arrangement. Under the PPPFA, the PBGC has agreed to forbear from initiating an involuntary termination of the Plans, except upon the occurrence of specified conditions, one of which is based on the aggregate market value of the Company's issued and outstanding stock. As of the date of this report, the Company's stock price is such that the PBGC would be permitted to cease forbearance. The PBGC has been given notice in accordance with the terms of the PPPFA and has not communicated any intention to cease its forbearance; however, if the PBGC were to initiate an involuntary termination of the Plans, our financial condition could be materially and adversely affected.

We may not realize the full anticipated benefits of the Craftsman sale transaction.

We may not realize the full anticipated benefits of the Craftsman sale transaction (the "Craftsman Sale"), in which case our business, financial results or operations could be adversely affected. Under the terms of our Acquired IP License Agreement with Stanley Black & Decker, we have the right to continue to use the Licensed IP (as defined in such agreement) and sell Craftsman-branded products in certain distribution channels. If the license is terminated, or if the terms of the license agreement are otherwise modified, we may not be able to continue to market, procure or sell Craftsman-branded products on favorable terms or at all, and our business may be adversely affected.

Our failure to comply with federal, state, local and international laws, or changes in these laws could adversely affect our results of operations.

Our business is subject to a wide array of laws and regulations. If we fail to comply with applicable laws and regulations, we could be subject to legal risk, including government enforcement action and class action civil litigation that could increase our cost of doing business. Changes in the regulatory environment regarding topics such as privacy and information security, product safety, environmental protection, payment methods and related fees, responsible sourcing, supply chain transparency, wage and hour laws, health care mandates and other applicable laws and regulations could also cause our compliance costs to increase and adversely affect our results of operations.

Our performance could further be impacted by changes in legislation, trade policies and agreements, energy and environmental standards, and tax laws and regulations. The current U.S. Administration has signaled that it may alter trade agreements and terms with foreign countries, and recently limited trade by announcing upcoming tariffs

on imported steel and aluminum and imposing tariffs and quotas on imports of residential washers from certain foreign countries. These restrictions and tariffs, as well as future additional tariffs and/or quotas, on products that we import may require that we raise our prices, which could result in decreased sales. Further, changes in environmental and energy efficiency standards and regulations applicable to products that we develop and/or sell, and potential changes in the size and availability of tax incentives applicable to such products, may impact the types, characteristics, and consumer interest in such products, which may negatively impact our results of operations. Moreover, future legislation or regulations, including environmental matters, product certification, product liability, tariffs, duties, taxes, tax incentives and other matters, may impact our results. Major developments in tax policy or trade relations, such as the imposition of unilateral tariffs on imported products, could have a material adverse effect on our business, results of operations and liquidity.

Weather conditions and natural disasters may impact consumer shopping patterns and could adversely affect our results of operations.

Significant weather conditions where our stores are located could negatively affect the Company's business and results of operations. Heavy snowfall, ice storms, rainstorms or other extreme weather conditions over a prolonged period could make it difficult for our members and customers to travel to our stores, thus leading to decreased sales. Our business is also susceptible to unseasonable weather conditions, such as unseasonably warm temperatures during the winter season or cool weather during the summer season, which could reduce demand for certain inventory and compromise our efforts to predict and manage inventory levels effectively. In addition, extreme weather conditions could result in disruption or delay of production and delivery of materials and products in our supply chain. In addition, natural disasters such as hurricanes, tornadoes and earthquakes, or a combination of these or other factors, could damage or destroy our facilities or make it difficult for members and customers to travel to our stores, thereby negatively affecting our business and results of operations as well as causing us to incur significant expenses to repair or replace such facilities.

Our stock price has been and may continue to be volatile.

The market price of our common stock has fluctuated substantially and may continue to fluctuate significantly. Future announcements or disclosures concerning us or any of our competitors, our strategic initiatives, our sales and profitability, any quarterly variations in actual or anticipated operating results or comparable sales, any failure to meet analysts' expectations and sales of large blocks of our common stock, among other factors, could cause the market price of our common stock to fluctuate substantially.

Increases in employee wages and the cost of employee benefits could impact our financial results and cash flow.

Our expenses relating to employee health benefits are significant. Increases in minimum wages or unfavorable changes in the cost of such benefits could negatively affect our financial results and cash flow. Healthcare costs have risen significantly in recent years, and various legislative and private sector initiatives regarding healthcare reform have resulted, and could continue to result, in significant changes to the U.S. healthcare system. Due to the breadth and complexity of the healthcare reform legislation, and the potential for change in this regard under the current U.S. Administration, we are unable at this time to fully determine the impact that further healthcare reform will have on our employee health benefit plans.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The following table summarizes the locations of our Kmart and Sears Domestic stores at February 3, 2018:

		Sears Domestic	
State / Territory	Kmart	Full-line Stores	Specialty Stores
Alabama	—	2	—
Alaska	—	3	—
Arizona	4	12	—
Arkansas	2	2	—
California	55	70	3
Colorado	4	9	1
Connecticut	3	6	—
Delaware	4	3	—
Florida	20	45	1
Georgia	6	13	—
Hawaii	2	4	1
Idaho	3	4	—
Illinois	12	21	4
Indiana	12	10	—
Iowa	9	5	—
Kansas	3	2	—
Kentucky	5	4	—
Louisiana	4	8	—
Maine	4	3	—
Maryland	11	15	—
Massachusetts	9	17	—
Michigan	15	17	1
Minnesota	5	6	—
Mississippi	2	3	1
Missouri	5	8	—
Montana	5	1	—
Nebraska	1	4	—
Nevada	5	5	1
New Hampshire	4	5	—
New Jersey	17	16	1
New Mexico	7	4	—
New York	30	28	3
North Carolina	15	16	—
North Dakota	5	2	—
Ohio	14	19	—
Oklahoma	2	3	—
Oregon	5	6	1
Pennsylvania	47	23	2
Rhode Island	—	—	—
South Carolina	6	6	—
South Dakota	1	2	—
Tennessee	7	13	—
Texas	3	46	2
Utah	1	2	—
Vermont	2	1	—
Virginia	6	16	—
Washington	6	16	1
West Virginia	7	3	—
Wisconsin	7	8	—
Wyoming	4	1	—
Puerto Rico	21	9	—
U.S. Virgin Islands	4	—	—
Guam	1	—	—
Totals	432	547	23

		Sears Domestic	
	Kmart	Full-line Stores	Specialty Stores
Owned	48	243	16
Leased	384	304	7
February 3, 2018	432	547	23

In addition, at February 3, 2018, we had 30 domestic supply chain distribution centers, of which 10 were owned and 20 were leased with remaining lease terms ranging up to 10 years. Of the total, six primarily support Kmart stores, 20 primarily support Sears stores and four support both Sears and Kmart stores. We also had 400 domestic store warehouses, customer call centers and service facilities (including 20 facilities related to our Monark Premium Appliance Co. of California, Monark Premium Appliance Co., and Monark Premium Appliance Co. of Arizona businesses), most of which are leased for terms ranging from one to six years or are part of other facilities included in the above table. Many of our facilities are also used to support our online channels.

Our principal executive offices are located on a 200-acre site owned by us at the Prairie Stone office park in Hoffman Estates, Illinois. The complex consists of six interconnected office buildings totaling approximately two million gross square feet of office space. We also own an 86,000 square foot office building in Troy, Michigan. We operate numerous buying offices throughout the world that procure product internationally, as well as an information technology center in Pune, India.

A description of our leasing arrangements and commitments appears in Note 14 of Notes to Consolidated Financial Statements.

Item 3. Legal Proceedings

See Part II, Item 8, Financial Statements—Notes to Consolidated Financial Statements, Note 18—Legal Proceedings, for additional information regarding legal proceedings, which information is incorporated herein by this reference.

Item 4. Mine Safety Disclosures

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table and information sets forth the names of our executive officers, their current positions and offices with the Company, the date they first became executive officers of the Company, their current ages, and their principal employment during the past five years.

Name	Position	Date First Became an Executive Officer	Age
Edward S. Lampert	Chairman of the Board and Chief Executive Officer	2013	55
Robert A. Riecker	Chief Financial Officer	2012	53
Julie Ainsworth	Chief People Officer	2017	46
J. Mitchell Bowling	Chief Executive Officer, Sears Home Services	2017	51
Leena Munjal	Chief Digital Officer	2013	41
Robert (B.J.) Naedele	Chief Commercial Officer, Shop Your Way	2017	39
Perry (Dean) Schwartz	President, Hardlines	2017	49
Stephen L. Sitley	General Counsel and Chief Compliance Officer	2017	54

Mr. Lampert has served as Chairman of the Company's Board of Directors since 2004 and as our Chief Executive Officer since February 2013. He also is the Chairman and Chief Executive Officer of ESL Investments, Inc., which he founded in April 1988.

Mr. Riecker was appointed to his current position in April 2017, and had served as Controller and Head of Capital Markets Activities since October 2016. He joined the Company as Assistant Controller in October 2005 and served as Vice President and Assistant Controller from May 2007 to October 2011. From October 2011 until his election as Vice President, Controller and Chief Accounting Officer in January 2012, he served as the Company's Vice President, Internal Audit.

Ms. Ainsworth joined the Company in March 2017 as Chief People Officer. Prior to joining the Company, she was Chief Executive Officer of celectiv LLC, a recruiting platform for technology-based companies, which she co-founded in 2014. From 2010 until 2013 she served as President of Warranty Division and Chief Marketing Officer of North American Services Division of Centrica plc, an energy and services company.

Mr. Bowling joined the Company in November 2017 as Chief Executive Officer, Sears Home Services. Prior to joining the Company, he served as Senior Vice President and Chief Operating Officer of Apollo Education Group, a leading provider of higher education for working adults, from December 2013 until April 2017, and prior to that, served as Senior Vice President and General Manager of New Businesses at Comcast, a global telecommunications provider, from 2009 until 2013.

Ms. Munjal was appointed to her current position in January 2018. She previously served as Senior Vice President, Customer Experience and Integrated Retail, since October 2012. She was appointed as Divisional Vice President, Integrated Retail and Member Experience, in July 2011 and was promoted to Vice President in June 2012. From October 2009 to June 2011, she served as Divisional Vice President, and Chief of Staff, Office of the Chairman, and served as Chief of Staff, Office of the CEO, from November 2007 to November 2009. Ms. Munjal joined Sears as Director, Information Technology, in March 2003.

Mr. Naedele joined the Company in March 2017. Prior to joining the Company, he served in a variety of roles with Nike, Inc., a company engaged in the design, development, marketing and sales of athletic gear and apparel, which he joined in July 2008, most recently as Vice President, Strategic Growth Initiatives from March 2016 until February 2017, and prior to that as Vice President, Global Brand Marketing from July 2014 until March 2016 and Global Business General Manager from July 2012 until July 2014.

Mr. Schwartz was appointed to his current position in April 2017. He previously served as President, Tools, Lawn & Garden, Fitness, Sporting Goods and Children's Entertainment from January 2017 until April 2017, as Vice President, Tools and Lawn & Garden from August 2016 until January 2017, as Vice President, Tools from May 2013 until August 2016, and as Vice President, Lawn & Garden from March 2009 until May 2013.

Mr. Sitley was appointed General Counsel in November 2017 and became Chief Compliance Officer in December 2017. From June 2016 until November 2017, he served as Vice President, Human Resources Operations, Compliance and Associate Relations, and prior to that, was Deputy General Counsel, Litigation and Employment from June 2011 until June 2016.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Holdings' common stock is quoted on The NASDAQ Stock Market under the ticker symbol SHLD. There were 9,502 shareholders of record at March 16, 2018. The quarterly high and low sales prices for Holdings' common stock are set forth below.

	Fiscal Year 2017			
	Sears Holdings			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Common stock price				
High	$ 14.32	$ 11.49	$ 9.63	$ 5.85
Low	$ 5.50	$ 6.20	$ 5.48	$ 2.31

	Fiscal Year 2016			
	Sears Holdings			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Common stock price				
High	$ 19.12	$ 16.55	$ 18.18	$ 13.84
Low	$ 14.05	$ 10.52	$ 10.50	$ 7.08

Holdings has not paid cash dividends over the two most recent fiscal years and does not expect to pay cash dividends in the foreseeable future.

Equity Compensation Plan Information

The following table reflects information about securities authorized for issuance under our equity compensation plans at February 3, 2018.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans*
Equity compensation plans approved by security holders	—	—	3,778,115
Equity compensation plans not approved by security holders	—	—	—
Total	—	—	3,778,115

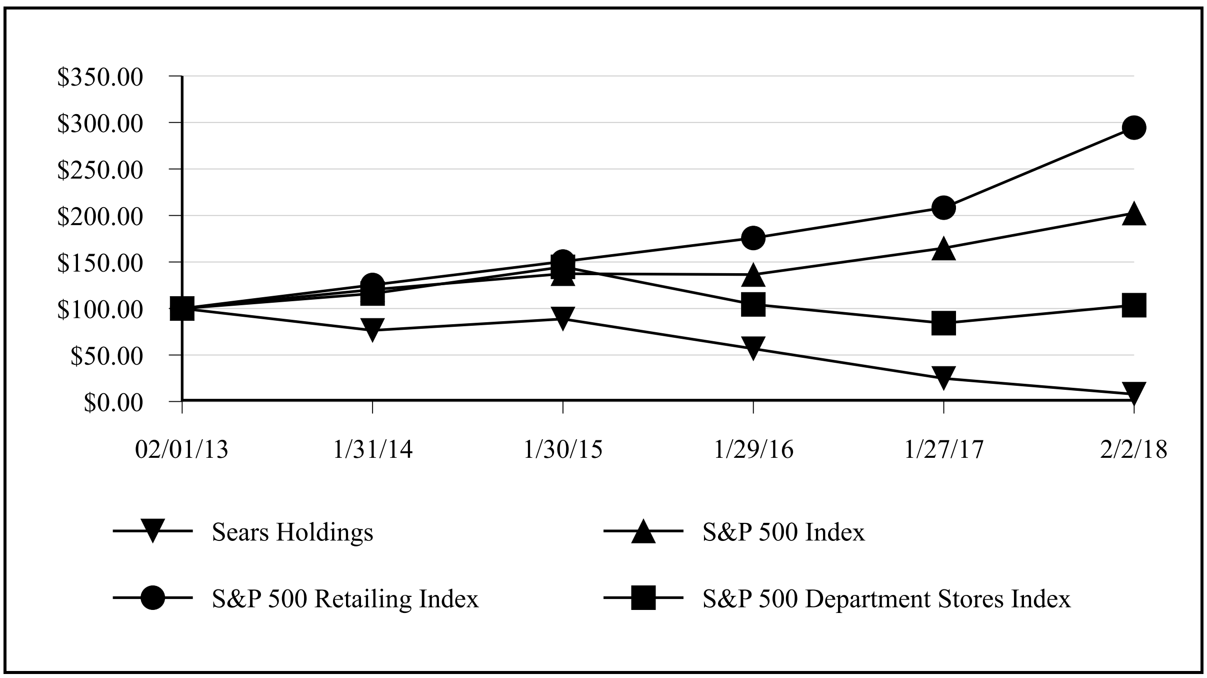
* Represents shares of common stock that may be issued pursuant to our 2013 Stock Plan. Awards under the 2013 Stock Plan may be restricted stock, stock unit awards, incentive stock options, nonqualified stock options, stock appreciation rights, or certain other stock-based awards. The 2013 Stock Plan also allows common stock of Holdings to be awarded in settlement of an incentive award under the Sears Holdings Corporation Umbrella Incentive Program (and any incentive program established thereunder). The shares shown exclude shares covered by an outstanding plan award that, subsequent to February 3, 2018, ultimately are not delivered on an unrestricted basis (for example, because the award is forfeited, canceled, settled in cash or used to satisfy tax withholding obligations).

Stock Performance Graph

Comparison of Five-Year Cumulative Stockholder Return

The following graph compares the cumulative total return to stockholders on Holdings' common stock from February 1, 2013 through February 2, 2018, the last trading day before the end of fiscal year 2017, based on the market prices at the last trading day before the end of each fiscal year through and including fiscal year 2017, with the return on the S&P 500 Index, the S&P 500 Retailing Index and the S&P 500 Department Stores Index for the same period. The graph assumes an initial investment of $100 on February 1, 2013 in each of our common stock, the S&P 500 Index, the S&P Retailing Index and the S&P 500 Department Stores Index. The graph further assumes reinvestment of the value of: (i) subscription rights to purchase shares of common stock of Sears Hometown and Outlet Stores, Inc. on September 13, 2012, the ex-distribution date of the distribution of such rights to Holdings' shareholders; (ii) common shares of Sears Canada on November 13, 2012, the distribution date of such shares to Holdings' shareholders; (iii) shares of Lands' End on April 7, 2014, the ex-distribution date of the distribution of such shares to Holdings' shareholders; (iv) subscription rights to purchase shares of common stock of Sears Canada on October 17, 2014, the ex-distribution date of the distribution of such rights to Holdings' shareholders; (v) subscription rights to purchase up to $625 million in aggregate principal amount of 8% senior unsecured notes due 2019 and warrants to purchase shares of Holdings' common stock on November 3, 2014, the ex-distribution date of the distribution of such rights to Holdings' shareholders; and (vi) subscription rights to purchase shares of common stock of Seritage Growth Properties on June 12, 2015, the distribution date of such rights to Holdings' shareholders.

The S&P 500 Retailing Index consists of companies included in the S&P 500 Index in the broadly defined retail sector, which includes competing retailers of softlines (apparel and domestics) and hardlines (appliances, electronics and home improvement products), as well as food and drug retailers. The S&P 500 Department Stores Index consists primarily of department stores that compete with our full-line stores.



	Feb 1, 2013	Jan 31, 2014	Jan 30, 2015	Jan 29, 2016	Jan 27, 2017	Feb 2, 2018
Sears Holdings	$100.00	$ 76.49	$ 88.75	$ 56.75	$ 24.84	$ 7.87
S&P 500 Index	$100.00	$120.29	$137.39	$136.47	$164.93	$202.57
S&P 500 Retailing Index	$100.00	$125.31	$150.49	$175.76	$208.37	$294.43
S&P 500 Department Stores Index	$100.00	$116.05	$144.80	$104.42	$ 84.22	$103.54

Purchase of Equity Securities

During the quarter ended February 3, 2018, we did not repurchase any shares of our common stock under our common share repurchase program. At February 3, 2018, we had approximately $504 million of remaining authorization under the program.

	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program[2]	Average Price Paid per Share for Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
October 29, 2017 to November 25, 2017	—	$ —	—	$ —	
November 26, 2017 to December 30, 2017	—	—	—	—	
December 31, 2017 to February 3, 2018	—	—	—	—	
Total	—	$ —	—	$ —	$ 503,907,832

(1) Consists entirely of 0 shares acquired from associates to meet withholding tax requirements from the vesting of restricted stock.

(2) Our common share repurchase program was initially announced on September 14, 2005 and has a total authorization since inception of the program of $6.5 billion, including the authorizations to purchase up to an additional $500 million of common stock on each of December 17, 2009 and May 2, 2011. The program has no stated expiration date.

The Amended Domestic Credit Agreement (described in Management's Discussion and Analysis of Financial Condition and Results of Operations - Uses and Sources of Liquidity section below) limits our ability to make restricted payments, including dividends and share repurchases, subject to specified exceptions that are available if, in each case, no event of default under the credit facility exists immediately before or after giving effect to the restricted payment. These include exceptions that require that projected availability under the credit facility, as defined, is at least 15%, exceptions that may be subject to certain maximum amounts and an exception that requires that the restricted payment is funded from cash on hand and not from borrowings under the credit facility. Further, the Amended Domestic Credit Agreement includes customary covenants that restrict our ability to make dispositions, prepay debt and make investments, subject, in each case, to various exceptions. The Amended Domestic Credit Agreement also imposes various other requirements, which take effect if availability falls below designated thresholds, including a cash dominion requirement and a requirement that the fixed charge ratio at the last day of any quarter be not less than 1.0 to 1.0.

Item 6. Selected Financial Data

The table below summarizes our recent financial information. The data set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 and our Consolidated Financial Statements and notes thereto in Item 8.

	Fiscal				
dollars in millions, except per share data	**2017**	**2016**	**2015**	**2014**	**2013**
Summary of Operations					
Revenues[1]	$ 16,702	$ 22,138	$ 25,146	$ 31,198	$ 36,188
Domestic comparable store sales %	(13.5)%	(7.4)%	(9.2)%	(1.8)%	(3.8)%
Net loss from continuing operations attributable to Holdings' shareholders	(383)	(2,221)	(1,129)	(1,682)	(1,365)
Per Common Share					
Basic:					
Net loss from continuing operations attributable to Holdings' shareholders	$ (3.57)	$ (20.78)	$ (10.59)	$ (15.82)	$ (12.87)
Diluted:					
Net loss from continuing operations attributable to Holdings' shareholders	$ (3.57)	$ (20.78)	$ (10.59)	$ (15.82)	$ (12.87)
Holdings' book value per common share	$ (34.54)	$ (35.71)	$ (18.40)	$ (8.93)	$ 16.34
Financial Data					
Total assets	$ 7,262	$ 9,362	$ 11,337	$ 13,185	$ 18,234
Long-term debt	2,199	3,470	1,971	2,878	2,531
Long-term capital lease obligations	50	103	137	210	275
Capital expenditures	80	142	211	270	329
Adjusted EBITDA[2]	(562)	(808)	(836)	(718)	(487)
Number of stores	1,002	1,430	1,672	1,725	2,429

(1) We follow a retail-based financial reporting calendar. Accordingly, the fiscal year ended February 3, 2018 contained 53 weeks, while all other years presented contained 52 weeks.

(2) See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 for a reconciliation of this measure to GAAP and a discussion of management's reasoning for using such measure. The periods presented were impacted by certain significant items, which affected the comparability of amounts reflected in the above selected financial data. For 2017, 2016 and 2015, these significant items are discussed within Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." 2014 results include the impact of domestic pension expense of $89 million, store closings and severance of $224 million, other expenses of $50 million and the results of Lands' End and Sears Canada that were included in the results of operations prior to the separations of $(10) million and $71 million, respectively. 2013 results include the impact of domestic pension expense of $162 million, domestic store closings and severance of $130 million, and the results of Lands' End and Sears Canada that were included in the results of our operations prior to the separations of $(150) million and $(3) million, respectively. Both 2014 and 2013 also included charges related to impairments, as well as gains on sales of assets.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

We have divided our Management's Discussion and Analysis of Financial Condition and Results of Operations into the following six sections:

- Overview of Holdings
- Results of Operations:
  - *Fiscal Year*
  - *Holdings' Consolidated Results*
  - *Business Segment Results*
- Analysis of Consolidated Financial Condition
- Contractual Obligations and Off-Balance Sheet Arrangements
- Application of Critical Accounting Policies and Estimates
- Cautionary Statement Regarding Forward-Looking Information

The discussion that follows should be read in conjunction with the Consolidated Financial Statements and notes thereto included in Item 8.

OVERVIEW OF HOLDINGS

Holdings, the parent company of Kmart and Sears, was formed in connection with the March 24, 2005 merger of these two companies. We are an integrated retailer with significant physical and intangible assets, as well as virtual capabilities enabled through technology. We operate a national network of stores, with 1,002 full-line and specialty retail stores in the United States, operating as Kmart and Sears. Further, we operate a number of websites under the sears.com and kmart.com banners which offer millions of products and provide the capability for our members and customers to engage in cross-channel transactions such as *free store pickup; buy in store/ship to home; and buy online, return in store.* We are also the home of Shop Your Way®, a free membership program that connects its members to personalized products, programs and partners that help them save time and money every day. Through an extensive network of national and local partners, members can shop thousands of their favorite brands, dine out and access an array of exclusive partners to earn points to redeem for savings on future purchases at Sears, Kmart, Lands' End and at ShopYourWay.com.

We conduct our operations in two business segments: Kmart and Sears Domestic. The nature of operations conducted within each of these segments is discussed within the Business Segments section of Item 1 in this Annual Report on Form 10-K. Our business segments have been determined in accordance with accounting standards regarding the determination, and reporting, of business segments.

RESULTS OF OPERATIONS

Fiscal Year

Our fiscal year end is the Saturday closest to January 31 each year. Fiscal year 2017 consisted of 53 weeks. Fiscal years 2016 and 2015 consisted of 52 weeks. Unless otherwise stated, references to years in this report relate to fiscal years rather than to calendar years.

Holdings' Consolidated Results

Holdings' consolidated results of operations for 2017, 2016 and 2015 are summarized as follows:

dollars in millions, except per share data	2017	2016	2015
REVENUES			
Merchandise sales	$ 13,409	$ 18,236	$ 20,936
Services and other	3,293	3,902	4,210
Total revenues	16,702	22,138	25,146
COSTS AND EXPENSES			
Cost of sales, buying and occupancy - merchandise sales	11,349	15,184	16,817
Gross margin dollars - merchandise sales	2,060	3,052	4,119
Gross margin rate - merchandise sales	*15.4%*	*16.7%*	*19.7%*
Cost of sales and occupancy - services and other	1,826	2,268	2,519
Gross margin dollars - services and other	1,467	1,634	1,691
Gross margin rate - services and other	*44.5%*	*41.9%*	*40.2%*
Total cost of sales, buying and occupancy	13,175	17,452	19,336
Total gross margin dollars	3,527	4,686	5,810
Total gross margin rate	*21.1%*	*21.2%*	*23.1%*
Selling and administrative	5,131	6,109	6,857
Selling and administrative expense as a percentage of total revenues	*30.7%*	*27.6%*	*27.3%*
Depreciation and amortization	332	375	422
Impairment charges	142	427	274
Gain on sales of assets	(1,648)	(247)	(743)
Total costs and expenses	17,132	24,116	26,146
Operating loss	(430)	(1,978)	(1,000)
Interest expense	(539)	(404)	(323)
Interest and investment loss	(12)	(26)	(62)
Other income	—	13	—
Loss before income taxes	(981)	(2,395)	(1,385)
Income tax benefit	598	174	257
Net loss	(383)	(2,221)	(1,128)
Income attributable to noncontrolling interests	—	—	(1)
NET LOSS ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS	$ (383)	$ (2,221)	$ (1,129)
NET LOSS PER COMMON SHARE ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS			
Diluted loss per share	$ (3.57)	$ (20.78)	$ (10.59)
Diluted weighted average common shares outstanding	107.4	106.9	106.6

References to comparable store sales amounts within the following discussion include sales for all stores operating for a period of at least 12 full months, including remodeled and expanded stores, but excluding store relocations and stores that have undergone format changes. Comparable store sales amounts include sales from sears.com and kmart.com shipped directly to customers. These online sales resulted in a negative impact to our comparable store sales results of approximately 70 basis points and 20 basis points for 2017 and 2016, respectively. In addition, comparable store sales have been adjusted for the change in the unshipped sales reserves recorded at the end of each reporting period, which resulted in a benefit of 30 basis points in 2017 and did not have any impact in 2016.

Comparable store sales results for 2017 were calculated based on the 52-week period ended January 27, 2018 as compared to the comparable 52-week period in the prior year, while comparable store sales results for 2016 were calculated based on the 52-week period ended January 28, 2017 as compared to the comparable 52-week period in the prior year.

2017 Compared to 2016

Net Loss Attributable to Holdings' Shareholders

We recorded a net loss attributable to Holdings' shareholders of $383 million ($3.57 loss per diluted share) and $2.2 billion ($20.78 loss per diluted share) for 2017 and 2016, respectively. The decrease in net loss for the year primarily reflected an increase in gain on sales of assets, a decrease in selling and administrative expenses and an increase in income tax benefit, partially offset by a decline in gross margin, which was primarily driven by the decline in revenues. Our results for 2017 and 2016 were affected by a number of significant items.

In addition to our net loss attributable to Holdings' shareholders determined in accordance with Generally Accepted Accounting Principles ("GAAP"), for purposes of evaluating operating performance, we use Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA").

Adjusted EBITDA was determined as follows:

millions	2017	2016	2015
Net loss attributable to Holdings per statement of operations	$ (383)	$ (2,221)	$ (1,129)
Income attributable to noncontrolling interests	—	—	1
Income tax benefit	(598)	(174)	(257)
Interest expense	539	404	323
Interest and investment loss	12	26	62
Other income	—	(13)	—
Operating loss	(430)	(1,978)	(1,000)
Depreciation and amortization	332	375	422
Gain on sales of assets	(1,648)	(247)	(743)
Impairment charges	142	427	274
Before excluded items	(1,604)	(1,423)	(1,047)
Closed store reserve and severance	462	384	98
Pension expense	656	288	229
Other[1]	2	31	(64)
Amortization of deferred Seritage gain	(78)	(88)	(52)
Adjusted EBITDA	$ (562)	$ (808)	$ (836)

[1] Consisted of items associated with legal matters, expenses associated with natural disasters, transaction costs associated with strategic initiatives, one-time credits from vendors and other expenses.

Adjusted EBITDA for our segments was as follows:

millions	2017 Kmart	2017 Sears Domestic	2017 Sears Holdings	2016 Kmart	2016 Sears Domestic	2016 Sears Holdings	2015 Kmart	2015 Sears Domestic	2015 Sears Holdings
Operating income (loss) per statement of operations	$ 367	$ (797)	$ (430)	$ (530)	$ (1,448)	$(1,978)	$ (292)	$ (708)	$(1,000)
Depreciation and amortization	60	272	332	71	304	375	72	350	422
Gain on sales of assets	(881)	(767)	(1,648)	(181)	(66)	(247)	(185)	(558)	(743)
Impairment charges	16	126	142	22	405	427	14	260	274
Before excluded items	(438)	(1,166)	(1,604)	(618)	(805)	(1,423)	(391)	(656)	(1,047)
Closed store reserve and severance	281	181	462	318	66	384	86	12	98
Pension expense	—	656	656	—	288	288	—	229	229
Other[(1)]	(23)	25	2	15	16	31	43	(107)	(64)
Amortization of deferred Seritage gain	(11)	(67)	(78)	(17)	(71)	(88)	(11)	(41)	(52)
Adjusted EBITDA	$ (191)	$ (371)	$ (562)	$ (302)	$ (506)	$ (808)	$ (273)	$ (563)	$ (836)
% to revenues	*(3.4)%*	*(3.3)%*	*(3.4)%*	*(3.5)%*	*(3.8)%*	*(3.6)%*	*(2.7)%*	*(3.8)%*	*(3.3)%*

(1) Consisted of items associated with legal matters, expenses associated with natural disasters, transaction costs associated with strategic initiatives, one-time credits from vendors and other expenses.

The following tables set forth the impact each excluded item used in calculating Adjusted EBITDA had on specific income and expense amounts reported in our Consolidated Statements of Operations during the years 2017, 2016 and 2015.

millions	Year Ended February 3, 2018				
Other Excluded Items:	**Closed store reserve and severance**	**Pension expense**	**Other[(1)]**	**Amortization of deferred Seritage gain**	**Total**
Gross margin impact	$ 227	$ —	$ —	$ (78)	$ 149
Selling and administrative impact	235	656	2	—	893
Total	$ 462	$ 656	$ 2	$ (78)	$ 1,042

millions	Year Ended January 28, 2017				
Other Excluded Items:	**Closed store reserve and severance**	**Pension expense**	**Other[(1)]**	**Amortization of deferred Seritage gain**	**Total**
Gross margin impact	$ 226	$ —	$ (33)	$ (88)	$ 105
Selling and administrative impact	158	288	64	—	510
Total	$ 384	$ 288	$ 31	$ (88)	$ 615

millions	Year Ended January 30, 2016				
Other Excluded Items:	**Closed store reserve and severance**	**Pension expense**	**Other[(1)]**	**Amortization of deferred Seritage gain**	**Total**
Gross margin impact	$ 44	$ —	$ (146)	$ (52)	$ (154)
Selling and administrative impact	54	229	82	—	365
Total	$ 98	$ 229	$ (64)	$ (52)	$ 211

(1) Consisted of items associated with legal matters, expenses associated with natural disasters, transaction costs associated with strategic initiatives, one-time credits from vendors and other expenses.

Adjusted EBITDA is computed as net loss attributable to Sears Holdings Corporation appearing on the Statements of Operations excluding income attributable to noncontrolling interests, income tax benefit, interest expense, interest and investment loss, other income, depreciation and amortization, gain on sales of assets and impairment charges. In addition, it is adjusted to exclude certain significant items as set forth below. Our management uses Adjusted EBITDA to evaluate the operating performance of our businesses, as well as executive compensation metrics, for comparable periods. Adjusted EBITDA should not be used by investors or other third parties as the sole basis for formulating investment decisions as it excludes a number of important cash and non-cash recurring items.

While Adjusted EBITDA is a non-GAAP measurement, management believes that it is an important indicator of ongoing operating performance, and useful to investors, because:

- EBITDA excludes the effects of financings and investing activities by eliminating the effects of interest and depreciation costs;
- Management considers gains/(losses) on the sale of assets to result from investing decisions rather than ongoing operations; and
- Other significant items, while periodically affecting our results, may vary significantly from period to period and have a disproportionate effect in a given period, which affects comparability of results. We have adjusted our results for these items to make our statements more comparable and therefore more useful to investors as the items are not representative of our ongoing operations and reflect past investment decisions.

These other significant items included in Adjusted EBITDA are further explained as follows:

- Closed store reserve and severance – We are transforming our Company to a less asset-intensive business model. Throughout this transformation, we continue to make choices related to our stores, which could result in sales, closures, lease terminations or a variety of other decisions.
- Pension expense – Contributions to our pension plans remain a significant use of our cash on an annual basis. Cash contributions to our pension and postretirement plans are separately disclosed on the cash flow statement. While the Company's pension plan is frozen, and thus associates do not currently earn pension benefits, we have a legacy pension obligation for past service performed by Kmart and Sears associates. The annual pension expense included in our statement of operations related to these legacy domestic pension plans was relatively minimal in years prior to 2009. However, due to the severe decline in the capital markets that occurred in the latter part of 2008, and the resulting abnormally low interest rates, which continue to persist, our domestic pension expense was $656 million in 2017, $288 million in 2016 and $229 million in 2015. Pension expense is comprised of interest cost, expected return on plan assets and recognized net loss and other. This adjustment eliminates the entire pension expense from the statement of operations to improve comparability. Pension expense is included in the determination of net loss.

  As further described in Note 7 of Notes to Consolidated Financial Statements, settlement charges also impacted pension expense in 2017. In conjunction with executing two separate agreements to purchase group annuity contracts in May 2017 and August 2017, the Company recorded non-cash charges of $200 million and $203 million, respectively, during the second and third quarters of 2017 for losses previously accumulated in other comprehensive income (loss), which were recognized through the statement of operations upon settlement. In addition, in conjunction with a lump sum offer completed in 2017, the Company recorded a non-cash charge of $76 million for losses previously accumulated in other comprehensive income (loss), which was recognized through the statement of operations immediately upon settlement during the fourth quarter of 2017.

The components of the adjustments to EBITDA related to pension expense were as follows:

millions	2017	2016	2015
Components of net periodic expense:			
Interest cost	$ 180	$ 227	$ 210
Expected return on plan assets	(190)	(202)	(249)
Settlements	479	—	—
Recognized net loss and other	187	263	268
Net periodic expense	$ 656	$ 288	$ 229

In accordance with GAAP, we recognize on the balance sheet actuarial gains and losses for defined benefit pension plans annually in the fourth quarter of each fiscal year and whenever a plan is determined to qualify for a remeasurement during a fiscal year. For income statement purposes, these actuarial gains and losses are recognized throughout the year through an amortization process. The Company recognizes in its results of operations, as a corridor adjustment, any unrecognized actuarial net gains or losses that exceed 10% of the larger of projected benefit obligations or plan assets. Accumulated gains/losses that are inside the 10% corridor are not recognized, while accumulated actuarial gains/losses that are outside the 10% corridor are amortized over the "average future service" of the population and are included in the recognized net loss and other line item above.

Actuarial gains and losses occur when actual experience differs from the estimates used to allocate the change in value of pension plans to expense throughout the year or when assumptions change, as they may each year. Significant factors that can contribute to the recognition of actuarial gains and losses include changes in discount rates used to remeasure pension obligations on an annual basis or upon a qualifying remeasurement, differences between actual and expected returns on plan assets and other changes in actuarial assumptions. Management believes these actuarial gains and losses are primarily financing activities that are more reflective of changes in current conditions in global financial markets (and in particular interest rates) that are not directly related to the underlying business and that do not have an immediate, corresponding impact on the benefits provided to eligible retirees. For further information on the actuarial assumptions and plan assets referenced above, see Management's Discussion and Analysis of Financial Condition and Results of Operations - Application of Critical Accounting Policies and Estimates - Defined Benefit Pension Plans, and Note 7 of Notes to Consolidated Financial Statements.

- Other – Consisted of items associated with legal matters, expenses associated with natural disasters, transaction costs associated with strategic initiatives, one-time credits from vendors and other expenses.
- Amortization of deferred Seritage gain – A portion of the gain on the Seritage transaction and certain other sale-leaseback transactions were deferred and will be recognized in proportion to the related rent expense, which is a component of cost of sales, buying and occupancy in the Consolidated Statements of Operations, over the lease terms. Management considers the amortization of the deferred Seritage gain to result from investing decisions rather than ongoing operations.

Revenues and Comparable Store Sales

Total revenues decreased $5.4 billion, or 24.6%, to $16.7 billion in 2017 compared to 2016 primarily driven by the decline in merchandise sales of $4.8 billion. The decline in merchandise sales included a decrease of approximately $3.2 billion as a result of having fewer Kmart and Sears Full-line stores in operation. For the full year, comparable store sales declined 13.5%, which contributed to $1.9 billion of the revenue decline relative to the prior year. The Company recognized approximately $189 million of revenues during the 53rd week of 2017. Services and other revenues declined $609 million during 2017 as compared to 2016, primarily driven by a decline in service-related revenues of approximately $295 million, as well as a decline in revenues from Sears Hometown and Outlet Stores, Inc. ("SHO") of approximately $208 million during 2017 as compared to 2016.

Kmart comparable store sales declined 11.4% for the full year primarily driven by declines in the pharmacy, grocery & household, home, drugstore, consumer electronics and apparel categories. Sears Domestic comparable

store sales for the year declined 15.2% primarily driven by decreases in the home appliances, apparel, consumer electronics and lawn & garden categories.

Gross Margin

Total gross margin declined $1.2 billion to $3.5 billion in 2017 as compared to the prior year primarily as a result of the above noted decline in sales, as well as a slight decline in gross margin rate, as the decline in gross margin rate for merchandise sales was partially offset by an improvement in gross margin rate for services and other. Gross margin for 2017 and 2016 included charges of $227 million and $226 million, respectively, related to store closures. Gross margin for 2017 and 2016 also included credits of $78 million and $88 million, respectively, related to the amortization of the deferred gain on sale of assets associated with the Seritage transaction, while 2016 also included one-time vendor credits of $33 million.

As compared to the prior year, Kmart's gross margin rate for 2017 increased 10 basis points, while Sears Domestic's gross margin rate decreased 60 basis points. Gross margin for Kmart and Sears Domestic were negatively impacted by expenses associated with store closures. Excluding the impact of significant items as noted in the Adjusted EBITDA tables, Kmart's gross margin rate would have improved 60 basis points in 2017 as compared to the prior year, while Sears Domestic's gross margin rate would have been flat to the prior year. The improvement in Kmart's gross margin rate was primarily driven by margin rate improvement in the apparel, home and drugstore categories, partially offset by a decline in the pharmacy category. Sears Domestic's gross margin rate for 2017 reflects improvement in the apparel category, which was offset by declines in the home appliances and tools categories. Kmart experienced lower clearance markdowns and Shop Your Way points expense, partially offset by an increase in promotional markdowns, while Sears Domestic experienced lower clearance markdowns, offset by an increase in both promotional markdowns and Shop Your Way points expense.

In addition, as a result of the Seritage and JV transactions, 2017 and 2016 included additional rent expense of approximately $169 million and $197 million, respectively. Due to the structure of the leases, we expect that our cash rent obligations to Seritage and the joint venture partners will decline, over time, as space in these stores is recaptured. From the inception of the Seritage transaction to date, we have received recapture notices on 55 properties and we also exercised our right to terminate the lease on 56 properties.

Selling and Administrative Expenses

Selling and administrative expenses decreased $978 million to $5.1 billion in 2017 from $6.1 billion in 2016 and included significant items, as noted in the Adjusted EBITDA tables, which aggregated to an expense of $893 million and $510 million for 2017 and 2016, respectively. Excluding these items, selling and administrative expenses declined $1.4 billion, primarily due to a decrease in payroll expense. In addition, advertising expense also declined as we continued to shift away from traditional advertising to use of Shop Your Way points expense, which is included within gross margin.

Selling and administrative expenses as a percentage of total revenues ("selling and administrative expense rate") were 30.7% and 27.6% for 2017 and 2016, respectively, as the decreases in overall selling and administrative expenses were more than offset by the above noted decline in revenues.

Depreciation and Amortization

Depreciation and amortization expense decreased by $43 million during 2017 to $332 million, as compared to 2016, primarily due to having fewer assets to depreciate.

Impairment Charges

We recorded impairment charges of $142 million in 2017, which consisted of impairment of $72 million related to the Sears trade name, as well as $70 million related to the impairment of long-lived assets. We recorded impairment charges of $427 million in 2016, which consisted of impairment of $381 million related to the Sears trade name, as well as $46 million related to the impairment of long-lived assets. Impairment charges recorded in both years are described further in Notes 1 and 13 of Notes to Consolidated Financial Statements.

Gain on Sales of Assets

We recorded total gains on sales of assets of $1.6 billion in 2017 and $247 million in 2016, which were primarily attributable to several significant real estate transactions. The gains recorded during 2017 included gains of $708 million recognized on the sale or amendment and lease terminations of 95 locations, $492 million recognized on the Craftsman Sale, $253 million as a result of recapture and lease termination activity and two stores that qualified for sales recognition and sale-leaseback accounting and $79 million related to other asset sales. Gains on sales of assets are described further in Note 11 of Notes to Consolidated Financial Statements.

Operating Loss

We recorded an operating loss of $430 million and $2.0 billion in 2017 and 2016, respectively. The operating loss for 2017 included significant items, as noted in the Adjusted EBITDA tables, which totaled $1.0 billion, while operating loss for 2016 included significant items which totaled $615 million. Both 2017 and 2016 also included charges related to impairments, as well as gains on sales of assets. Taking these significant items into consideration, the decrease in operating loss in 2017 was primarily driven by the decrease in selling and administrative expenses, partially offset by the decline in gross margin noted above.

Interest Expense

We incurred $539 million and $404 million in interest expense during 2017 and 2016, respectively. The increase is due to an increase in average outstanding borrowings in 2017, as well as an increase in the annual weighted-average interest rate for our borrowings.

Interest and Investment Loss

We recorded interest and investment loss of $12 million during 2017 compared to $26 million during 2016. Interest and investment loss is described further in Note 6 of Notes to Consolidated Financial Statements.

Income Taxes

We recorded an income tax benefit of $598 million in 2017 compared with an income tax benefit of $174 million in 2016. Our effective tax rate for 2017 was a benefit of 61.0% compared to a benefit of 7.3% for 2016. On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code that affected our fiscal year ended February 3, 2018, including, but not limited to, (1) reducing the U.S. federal corporate tax rate to 21%, (2) requiring a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries that is payable over eight years and (3) various other miscellaneous changes that are effective in fiscal 2017. With the lower U.S. federal corporate rate effective beginning January 1, 2018, our U.S. federal corporate tax rate for fiscal 2017 is a blended rate of 33.717%. The income tax benefit for the period ended February 3, 2018 included a tax benefit of approximately $470 million related to the impacts of the Tax Act. In addition to the impact of the Tax Act, the Company also realized a significant tax benefit during 2017 on the reversal of deferred taxes mainly related to the Craftsman Sale, but also related to indefinite-life assets associated with property sold. Our tax rate in 2017 continues to reflect the effect of not recognizing the benefit of current period losses in certain domestic and foreign jurisdictions where it is more likely than not that such benefits would be realized. In addition, 2017 was negatively impacted by foreign branch taxes and state income taxes.

During 2016, the Company realized a significant tax benefit on the deferred taxes related to the partial impairment of the Sears trade name. In addition, the Company recorded a tax benefit related to the net gain on pension and other postretirement benefits in continuing operations and a corresponding tax expense of the same amount in other comprehensive income. Also, the application of the requirements for accounting for income taxes, after consideration of our valuation allowance, caused a significant variation in the typical relationship between income tax expense and pretax income. Our tax rate in 2016 reflected the effect of not recognizing the benefit of current period losses in certain domestic and foreign jurisdictions where it was not more likely than not that such benefits would be realized. In addition, 2016 was negatively impacted by foreign branch taxes and state income taxes.

2016 Compared to 2015

Net Loss Attributable to Holdings' Shareholders

We recorded a net loss attributable to Holdings' shareholders of $2.2 billion ($20.78 loss per diluted share) and $1.1 billion ($10.59 loss per diluted share) for 2016 and 2015, respectively. The increase in net loss for the year primarily reflected a decline in gross margin, which was driven by a decline in both revenues and gross margin rate, partially offset by a decrease in selling and administrative expenses.

Revenues and Comparable Store Sales

Total revenues decreased $3.0 billion, or 12.0%, to $22.1 billion in 2016, as compared to revenues of $25.1 billion in 2015, primarily driven by the decline in merchandise sales of $2.7 billion. The decline in merchandise sales included a decrease of $1.3 billion as a result of having fewer Kmart and Sears Full-line stores in operation. For the full year, comparable store sales declined 7.4%, which contributed to $1.4 billion of the revenue decline relative to the prior year. Services and other revenues declined $308 million during 2016 as compared to 2015, primarily driven by a decline in service-related revenues of approximately $30 million, as well as a decline in revenues from SHO of approximately $238 million during 2016 as compared to 2015.

Kmart comparable store sales declined 5.3% for the full year primarily driven by declines in the grocery & household, consumer electronics and pharmacy categories. Sears Domestic comparable store sales for the year declined 9.3% primarily driven by decreases in the home appliances, apparel and consumer electronics categories.

Gross Margin

Total gross margin declined $1.1 billion to $4.7 billion in 2016 from $5.8 billion in 2015 as a result of the above noted decline in sales, as well as a decline in gross margin rate, as the decline in gross margin rate for merchandise sales was partially offset by an improvement in gross margin rate for services and other. Gross margin for 2016 included one-time vendor credits of $33 million, as well as a credit of $88 million related to the amortization of the deferred gain on sale of assets associated with the Seritage transaction, while 2015 included one-time vendor credits of $146 million, as well as a credit of $52 million related to the amortization of the deferred gain on sale of assets associated with the Seritage transaction. Gross margin for 2016 and 2015 also included charges of $226 million and $44 million, respectively, related to store closures.

As compared to the prior year, Kmart's gross margin rate for 2016 declined 310 basis points. Excluding significant items primarily related to store closures as noted in the Adjusted EBITDA tables, Kmart's gross margin rate would have declined 130 basis points with margin rate declines experienced across most categories, most notably in the apparel, grocery & household, drugstore, home and pharmacy categories. Sears Domestic's gross margin rate for 2016 decreased 130 basis points. Excluding the impact of significant items in both years primarily related to the amortization of the deferred gain on sale of assets associated with the Seritage transaction, one-time vendor credits and store closures, Sears Domestic's gross margin rate declined 60 basis points, with the most notable decreases experienced in the apparel, home appliances and footwear categories. The decline in margin rate experienced in both Kmart and Sears Domestic is primarily attributable to increased markdowns, including an increase in Shop Your Way points expense.

In addition, as a result of the Seritage and JV transactions, 2016 and 2015 included additional rent expense and assigned sub-tenant rental income of approximately $197 million and $133 million, respectively.

Selling and Administrative Expenses

Selling and administrative expenses decreased $748 million to $6.1 billion in 2016 from $6.9 billion in 2015 and included significant items, as noted in the Adjusted EBITDA tables, which aggregated to an expense of $510 million and $365 million for 2016 and 2015, respectively. Excluding these items, selling and administrative expenses declined $893 million, primarily due to a decrease in payroll expense. In addition, advertising expense also declined as we continued to shift away from traditional advertising to use of Shop Your Way points expense, which is included within gross margin.

Selling and administrative expenses as a percentage of total revenues ("selling and administrative expense rate") were 27.6% and 27.3% for 2016 and 2015, respectively, as the decreases in overall selling and administrative expenses were more than offset by the above noted decline in revenues.

Depreciation and Amortization

Depreciation and amortization expense decreased by $47 million during 2016 to $375 million, as compared to 2015, primarily due to having fewer assets to depreciate.

Impairment Charges

We recorded impairment charges of $427 million in 2016, which consisted of impairment of $381 million related to the Sears trade name, as well as $46 million related to the impairment of long-lived assets. We recorded impairment charges of $274 million in 2015, which consisted of impairment of $180 million related to the Sears trade name, as well as $94 million related to the impairment of long-lived assets. Impairment charges recorded in both years are described further in Notes 1 and 13 of Notes to Consolidated Financial Statements.

Gain on Sales of Assets

We recorded total gains on sales of assets of $247 million in 2016 and $743 million in 2015, which were primarily attributable to several significant real estate transactions. The gains recorded in 2015 included $508 million recognized in connection with the joint venture transactions and the sale-leaseback transaction with Seritage. Gains on sales of assets recorded in both years are described further in Note 11 of Notes to Consolidated Financial Statements.

Operating Loss

We recorded an operating loss of $2.0 billion and $1.0 billion in 2016 and 2015, respectively. The operating loss for 2016 included significant items, as noted in the Adjusted EBITDA tables, which totaled $615 million, while operating loss for 2015 included significant items which totaled $211 million. Both 2016 and 2015 also included charges related to impairments, as well as gains on sales of assets. Taking these significant items into consideration, the decrease in operating loss in 2016 was primarily driven by the decrease in selling and administrative expenses, partially offset by the decline in gross margin noted above.

Interest Expense

We incurred $404 million and $323 million in interest expense during 2016 and 2015, respectively. The increase is due to an increase in average outstanding borrowings in 2016.

Interest and Investment Loss

We recorded interest and investment loss of $26 million during 2016 compared to interest and investment loss of $62 million during 2015. Interest and investment income loss is described further in Note 6 of Notes to Consolidated Financial Statements.

Income Taxes

We recorded an income tax benefit of $174 million in 2016 compared with an income tax benefit of $257 million in 2015. Our effective tax rate for 2016 was a benefit of 7.3% compared to a benefit of 18.6% for 2015. During 2016, the Company realized a significant tax benefit on the deferred taxes related to the partial impairment of the Sears trade name. In addition, the Company recorded a tax benefit related to the net gain on pension and other postretirement benefits in continuing operations and a corresponding tax expense of the same amount in other comprehensive income. Also, the application of the requirements for accounting for income taxes, after consideration of our valuation allowance, caused a significant variation in the typical relationship between income tax expense and pretax income. Our tax rate in 2016 reflected the effect of not recognizing the benefit of current period losses in certain domestic and foreign jurisdictions where it was not more likely than not that such benefits would be realized. In addition, 2016 was negatively impacted by foreign branch taxes and state income taxes.

The 2015 rate was favorably impacted by the significant tax benefit realized on the deferred taxes related to indefinite-life assets associated with the property sold in the transaction with Seritage and the tax benefit realized on the deferred taxes related to the partial impairment of the Sears trade name. These items were partially offset by foreign branch taxes and state income taxes.

Business Segment Results

Kmart

Kmart results and key statistics were as follows:

dollars in millions	2017	2016	2015
Total revenues	$ 5,618	$ 8,650	$ 10,188
Comparable store sales %	*(11.4)%*	*(5.3)%*	*(7.3)%*
Cost of sales, buying and occupancy	4,601	7,093	8,042
Gross margin dollars	1,017	1,557	2,146
Gross margin rate	*18.1 %*	*18.0 %*	*21.1 %*
Selling and administrative	1,455	2,175	2,537
Selling and administrative expense as a percentage of total revenues	*25.9 %*	*25.1 %*	*24.9 %*
Depreciation and amortization	60	71	72
Impairment charges	16	22	14
Gain on sales of assets	(881)	(181)	(185)
Total costs and expenses	5,251	9,180	10,480
Operating income (loss)	$ 367	$ (530)	$ (292)
Adjusted EBITDA	$ (191)	$ (302)	$ (273)
Total Kmart stores	432	735	941

2017 Compared to 2016

Revenues and Comparable Store Sales

Kmart's revenues decreased by $3.0 billion to $5.6 billion in 2017, primarily due to the effect of having fewer stores in operation, which accounted for approximately $2.4 billion of the decline. Revenues were also impacted by a decrease in comparable store sales of 11.4%, which accounted for approximately $689 million of the decline. The Company recognized approximately $64 million of revenues during the 53rd week of 2017. The decline in comparable store sales was primarily driven by declines in the pharmacy, grocery & household, home, drugstore, consumer electronics and apparel categories.

Gross Margin

Kmart generated $1.0 billion in gross margin in 2017 compared to $1.6 billion in 2016. The decrease in Kmart's gross margin is due to the above noted decrease in sales, partially offset by an increase in gross margin rate. Gross margin included charges related to store closures of $154 million and $187 million in 2017 and 2016, respectively, as well as credits of $11 million and $17 million in 2017 and 2016, respectively, related to the amortization of the deferred gain on sale of assets associated with the Seritage transaction.

Kmart's gross margin rate increased 10 basis points to 18.1% in 2017 from 18.0% in 2016. Excluding the impact of significant items, as noted in the Adjusted EBITDA tables, Kmart's gross margin rate would have improved 60 basis points in 2017 as compared to the prior year, primarily driven by margin rate improvement in the apparel, home and drugstore categories, partially offset by a decline in the pharmacy category. Kmart experienced lower clearance markdowns and Shop Your Way points expense, partially offset by an increase in promotional markdowns.

In addition, as a result of the Seritage and JV transactions, 2017 and 2016 included additional rent expense of approximately $21 million and $35 million, respectively.

Selling and Administrative Expenses

Kmart's selling and administrative expenses decreased $720 million in 2017. Selling and administrative expenses included significant items, as noted in the Adjusted EBITDA tables, which aggregated to expense of $104 million and $146 million for 2017 and 2016, respectively. Excluding these items, selling and administrative expenses decreased $678 million primarily due to decreases in payroll and advertising expenses.

Kmart's selling and administrative expense rate was 25.9% in 2017 and 25.1% in 2016 and increased primarily as a result of lower expense leverage due to the sales decline noted above.

Impairment charges

Kmart recorded impairment charges of $16 million and $22 million in 2017 and 2016, respectively, related to the impairment of long-lived assets. Impairment charges recorded during 2017 and 2016 are further described in Note 13 of Notes to Consolidated Financial Statements.

Gain on Sales of Assets

Kmart recorded total gains on sales of assets of $881 million and $181 million in 2017 and 2016, respectively. The gains recorded during 2017 included gains of $492 million recognized on the Craftsman Sale, $164 million recognized on the sale or amendment and lease terminations of 43 locations, $43 million as a result of recapture and lease termination activity and $79 million related to other asset sales. Gains on sales of assets are described further in Note 11 of Notes to Consolidated Financial Statements.

Operating Income (Loss)

Kmart recorded operating income of $367 million in 2017 as compared to an operating loss of $530 million in 2016. Operating income for 2017 included significant items, as noted in the Adjusted EBITDA tables, which totaled $247 million, while operating loss for 2016 included significant items which totaled $316 million. Both 2017 and 2016 also included gains on sales of assets, as well as charges related to impairments. Taking these significant items into consideration, the decrease in Kmart's operating loss was primarily driven by the decrease in selling and administrative expenses, partially offset by a decline in gross margin noted above.

2016 Compared to 2015

Revenues and Comparable Store Sales

Kmart’s revenues decreased by $1.5 billion to $8.7 billion in 2016, primarily due to the effect of having fewer stores in operation, which accounted for approximately $1.0 billion of the decline. Revenues were also impacted by a decrease in comparable store sales of 5.3%, which accounted for approximately $477 million of the decline. The decline in comparable store sales was primarily driven by declines in the grocery & household, consumer electronics and pharmacy categories.

Gross Margin

Kmart generated $1.6 billion in gross margin in 2016 compared to $2.1 billion in 2015. The decrease in Kmart’s gross margin is due to the above noted decrease in sales, as well as a decline in gross margin rate. Gross margin included significant items which aggregated to expense of $170 million and $28 million for 2016 and 2015, respectively.

Kmart's gross margin rate declined 310 basis points to 18.0% in 2016 from 21.1% in 2015. Excluding the impact of significant items primarily related to store closures, as noted in the Adjusted EBITDA tables, Kmart's gross margin rate would have declined 130 basis points due to margin rate declines experienced across most

categories, most notably in the apparel, grocery & household, drugstore, home and pharmacy categories driven by increased markdowns, including an increase in Shop Your Way points expense.

In addition, as a result of the Seritage and JV transactions, 2016 and 2015 included additional rent expense and assigned sub-tenant rental income of approximately $35 million and $25 million, respectively.

Selling and Administrative Expenses

Kmart's selling and administrative expenses decreased $362 million in 2016. Selling and administrative expenses included significant items, as noted in the Adjusted EBITDA tables, which aggregated to expense of $146 million and $90 million for 2016 and 2015, respectively. Excluding these items, selling and administrative expenses decreased $418 million primarily due to decreases in payroll and advertising expenses.

Kmart's selling and administrative expense rate was 25.1% in 2016 and 24.9% in 2015 and increased primarily as a result of lower expense leverage due to the sales decline noted above.

Impairment charges

Kmart recorded impairment charges of $22 million and $14 million in 2016 and 2015, respectively, related to the impairment of long-lived assets. Impairment charges recorded during 2016 and 2015 are further described in Note 13 of Notes to Consolidated Financial Statements.

Gain on Sales of Assets

Kmart recorded total gains on sales of assets of $181 million and $185 million in 2016 and 2015, respectively. Gains on sales of assets recorded in both years are described further in Note 11 of Notes to Consolidated Financial Statements.

Operating Loss

Kmart recorded an operating loss of $530 million in 2016 as compared to $292 million in 2015. Operating loss for 2016 included significant items, as noted in the Adjusted EBITDA tables, which totaled $316 million, while operating loss for 2015 included significant items which totaled $118 million. Both 2016 and 2015 also included gains on sales of assets, as well as charges related to impairments. Taking these significant items into consideration, the decrease in Kmart's operating loss was primarily driven by the decrease in selling and administrative expenses, partially offset by a decline in gross margin.

Sears Domestic

Sears Domestic results and key statistics were as follows:

dollars in millions	2017	2016	2015
Total revenues	$ 11,084	$ 13,488	$ 14,958
Comparable store sales %	*(15.2)%*	*(9.3)%*	*(11.1)%*
Cost of sales, buying and occupancy	8,574	10,359	11,294
Gross margin dollars	2,510	3,129	3,664
Gross margin rate	*22.6 %*	*23.2 %*	*24.5 %*
Selling and administrative	3,676	3,934	4,320
Selling and administrative expense as a percentage of total revenues	*33.2 %*	*29.2 %*	*28.9 %*
Depreciation and amortization	272	304	350
Impairment charges	126	405	260
Gain on sales of assets	(767)	(66)	(558)
Total costs and expenses	11,881	14,936	15,666
Operating loss	$ (797)	$ (1,448)	$ (708)
Adjusted EBITDA	$ (371)	$ (506)	$ (563)
Number of:			
Full-line stores	547	670	705
Specialty stores	23	25	26
Total Sears Stores	570	695	731

2017 Compared to 2016

Revenues and Comparable Store Sales

Sears Domestic's revenues decreased by $2.4 billion to $11.1 billion in 2017 as compared to 2016. This decline in revenues was primarily driven by a decrease in comparable store sales of 15.2%, which accounted for $1.2 billion of the decline, and the effect of having fewer Full-line stores in operation, which accounted for $760 million of the decline. The decline in Sears Domestic comparable store sales was primarily driven by decreases in the home appliances, apparel, consumer electronics and lawn & garden categories. The Company recognized approximately $125 million of revenues during the 53rd week of 2017. In addition, we also experienced a decline in revenues from SHO of approximately $208 million during 2017 as compared to 2016.

Gross Margin

Sears Domestic generated gross margin of $2.5 billion and $3.1 billion in 2017 and 2016, respectively, which included charges related to store closures of $73 million and $39 million in 2017 and 2016, respectively. Gross margin also included credits of $67 million and $71 million in 2017 and 2016, respectively, related to the amortization of the deferred gain on sale of assets associated with the Seritage transaction, while 2016 also included one-time vendor credits of $33 million.

Sears Domestic's gross margin rate for the year declined 60 basis points to 22.6% in 2017 from 23.2% in 2016. Excluding the impact of significant items in both years primarily related to store closures, the amortization of the deferred gain on sales of assets associated with the Seritage transaction and one-time vendor credits, Sears Domestic's gross margin rate in 2017 would have been flat to the prior year, which reflects improvement in the apparel category, which was offset by declines in the home appliances and tools categories. Sears Domestic experienced lower clearance markdowns, offset by an increase in both promotional markdowns and Shop Your Way points expense.

In addition, as a result of the Seritage and JV transactions, 2017 and 2016 included additional rent expense of approximately $148 million and $162 million, respectively.

Selling and Administrative Expenses

Sears Domestic's selling and administrative expenses decreased $258 million in 2017 as compared to 2016 and included significant items, as noted in the Adjusted EBITDA tables, which aggregated to $789 million and $364 million for 2017 and 2016, respectively. Excluding these items, selling and administrative expenses decreased $683 million, primarily due to decreases in payroll and advertising expenses.

Sears Domestic's selling and administrative expense rate was 33.2% in 2017 and 29.2% in 2016 and increased as the above noted expense reduction was more than offset by the decline in sales noted above.

Depreciation and Amortization

Depreciation and amortization expense decreased by $32 million during 2017 to $272 million, as compared to 2016, primarily due to having fewer assets to depreciate.

Impairment Charges

Sears Domestic recorded impairment charges of $126 million in 2017 which consisted of impairment of $72 million related to the Sears trade name, as well as $54 million related to the impairment of long-lived assets. We recorded impairment charges of $405 million in 2016 which consisted of impairment of $381 million related to the Sears trade name, as well as $24 million related to the impairment of long-lived assets. Impairment charges recorded in both years are described further in Notes 1 and 13 of Notes to Consolidated Financial Statements.

Gain on Sales of Assets

Sears Domestic recorded total gains on sales of assets of $767 million and $66 million in 2017 and 2016, respectively. The gains recorded during 2017 included gains of $544 million recognized on the sale or amendment and lease terminations of 52 locations and $210 million as a result of recapture and lease termination activity and two stores that qualified for sales recognition and sale-leaseback accounting. Gains on sales of assets are described further in Note 11 of Notes to Consolidated Financial Statements.

Operating Loss

Sears Domestic reported an operating loss of $797 million in 2017 compared to $1.4 billion in 2016. Sears Domestic's operating loss in 2017 included significant items, as noted in the Adjusted EBITDA tables, which totaled $795 million, while operating loss for 2016 included significant items which totaled $299 million. Both 2017 and 2016 also included charges related to impairments, as well as gains on sales of assets. Taking these significant items into consideration, the decrease in Sears Domestic's operating loss in 2017 was driven by the decrease in selling and administrative expenses, partially offset by the decline in gross margin noted above.

2016 Compared to 2015

Revenues and Comparable Store Sales

Sears Domestic's revenues decreased by $1.5 billion to $13.5 billion in 2016 as compared to 2015. This decline in revenues was primarily driven by a decrease in comparable store sales of 9.3%, which accounted for $890 million of the decline, and the effect of having fewer Full-line stores in operation, which accounted for $241 million of the decline. The decline in Sears Domestic comparable store sales was primarily driven by decreases in the home appliances, apparel and consumer electronics categories. In addition, we also experienced a decline in revenues from SHO of approximately $238 million during 2016 as compared to 2015.

Gross Margin

Sears Domestic generated gross margin of $3.1 billion and $3.7 billion in 2016 and 2015, respectively, which included significant items which aggregated to additional gross margin of $65 million and $182 million for 2016 and 2015, respectively.

Sears Domestic's gross margin rate for the year declined 130 basis points to 23.2% in 2016 from 24.5% in 2015. Excluding the impact of significant items in both years primarily related to the amortization of the deferred gain on sales of assets associated with the Seritage transaction, one-time vendor credits and store closures, s noted in the Adjusted EBITDA tables, Sears Domestic's gross margin rate declined 60 basis points, with the most notable decreases experienced in the apparel, home appliances and footwear categories driven by increased markdowns, including an increase in Shop Your Way points expense.

In addition, as a result of the Seritage and JV transactions, 2016 and 2015 included additional rent expense and assigned sub-tenant rental income of approximately $162 million and $108 million, respectively.

Selling and Administrative Expenses

Sears Domestic’s selling and administrative expenses decreased $386 million in 2016 as compared to 2015 and included significant items, as noted in the Adjusted EBITDA tables, which aggregated to $364 million and $275 million for 2016 and 2015, respectively. Excluding these items, selling and administrative expenses decreased $475 million, primarily due to decreases in payroll and advertising expenses.

Sears Domestic's selling and administrative expense rate was 29.2% in 2016 and 28.9% in 2015 and increased as the above noted expense reduction was more than offset by the decline in sales noted above.

Depreciation and Amortization

Depreciation and amortization expense decreased by $46 million during 2016 to $304 million, as compared to 2015, primarily due to having fewer assets to depreciate.

Impairment Charges

Sears Domestic recorded impairment charges of $405 million in 2016 which consisted of impairment of $381 million related to the Sears trade name, as well as $24 million related to the impairment of long-lived assets. We recorded impairment charges of $260 million in 2015 which consisted of impairment of $180 million related to the Sears trade name, as well as $80 million related to the impairment of long-lived assets. Impairment charges recorded in both years are described further in Notes 1 and 13 of Notes to Consolidated Financial Statements.

Gain on Sales of Assets

Sears Domestic recorded total gains on sales of assets of $66 million and $558 million in 2016 and 2015, respectively. The gains recorded in 2015 included $371 million recognized in connection with the joint venture transactions and the sale-leaseback transaction with Seritage. Gains on sales of assets recorded in both years are described further in Note 11 of Notes to Consolidated Financial Statements.

Operating Loss

Sears Domestic reported an operating loss of $1.4 billion in 2016 compared to $708 million in 2015. Sears Domestic's operating loss in 2016 included significant items, as noted in the Adjusted EBITDA tables, which totaled $299 million, while operating loss for 2015 included significant items which totaled $93 million. Both 2016 and 2015 also included charges related to impairments, as well as gains on sales of assets. Taking these significant items into consideration, the decrease in Sears Domestic's operating loss in 2016 was driven by the decrease in selling and administrative expenses, partially offset by the above noted decline in gross margin.

ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION

Cash Balances

Our cash and cash equivalents include all highly liquid investments with original maturities of three months or less at the date of purchase. Our cash balances as of February 3, 2018 and January 28, 2017 are detailed in the following table.

millions	February 3, 2018	January 28, 2017
Cash and equivalents	$ 113	$ 196
Cash posted as collateral	4	3
Credit card deposits in transit	65	87
Total cash and cash equivalents	182	286
Restricted cash	154	—
Total cash balances	$ 336	$ 286

We had total cash balances of $336 million and $286 million at February 3, 2018 and January 28, 2017, respectively.

At various times, we have posted cash collateral for certain outstanding letters of credit and self-insurance programs. Such cash collateral is classified within cash and cash equivalents given we have the ability to substitute letters of credit at any time for this cash collateral and it is therefore readily available to us. Our invested cash may include, from time to time, investments in, but not limited to, commercial paper, federal, state and municipal government securities, floating-rate notes, repurchase agreements and money market funds. Cash amounts held in these short-term investments are readily available to us. Credit card deposits in transit include deposits in transit from banks for payments related to third-party credit card and debit card transactions. The Company classifies cash balances that are legally restricted pursuant to contractual arrangements as restricted cash. The restricted cash balance relates to amounts deposited into an escrow for the benefit of our pension plans.

We classify outstanding checks in excess of funds on deposit within other current liabilities and reduce cash balances when these checks clear the bank on which they were drawn. Outstanding checks in excess of funds on deposit were $74 million and $29 million as of February 3, 2018 and January 28, 2017, respectively.

Operating Activities

The Company used $1.8 billion of cash in its operations during 2017, $1.4 billion during 2016 and $2.2 billion during 2015. Our primary source of operating cash flows is the sale of goods and services to customers, while the primary use of cash in operations is the purchase of merchandise inventories and the payment of operating expenses. We used more cash in operations in 2017 compared to 2016 primarily due to declines in merchandise payables and other liabilities, partially offset by a decline in merchandise inventories. We used less cash in operations in 2016 compared to 2015 primarily due to a decrease in our net inventory.

Merchandise inventories were $2.8 billion and $4.0 billion, respectively, at February 3, 2018 and January 28, 2017, while merchandise payables were approximately $0.6 billion and $1.0 billion, respectively, at February 3, 2018 and January 28, 2017. Our inventory balances decreased approximately $1.2 billion primarily due to both store closures and improved productivity. Sears Domestic inventory decreased in virtually all categories, with the most notable decreases in the apparel, tools and home appliances categories. Kmart inventory decreased in all categories with the most notable decreases in the apparel, home, drugstore and grocery & household categories.

Investing Activities

We generated net cash flows from investing activities of $1.9 billion in 2017, $244 million in 2016 and $2.5 billion in 2015.

For 2017, net cash flows from investing activities consisted of cash proceeds from the sale of properties and investments of $1.1 billion, proceeds from the Craftsman Sale of $572 million and proceeds from the sale of

receivables of $293 million, partially offset by cash used for capital expenditures of $80 million. For 2016, net cash flows from investing activities primarily consisted of cash proceeds from the sale of properties and investments of $386 million, partially offset by cash used for capital expenditures of $142 million. For 2015, net cash flows from investing activities primarily consisted of cash proceeds from the sale of properties and investments of $2.7 billion, partially offset by cash used for capital expenditures of $211 million. Proceeds from the sales of properties and investments in 2015 included approximately $2.6 billion of net proceeds from the Seritage transaction.

We spent $80 million, $142 million and $211 million during 2017, 2016 and 2015, respectively, for capital expenditures. Capital expenditures during all three years primarily included investments in online and mobile shopping capabilities, enhancements to the Shop Your Way platform, information technology infrastructure and store maintenance.

We anticipate 2018 capital expenditure levels to be similar to 2017 levels. In the normal course of business, we consider opportunities to purchase leased operating properties, as well as offers to sell owned, or assign leased, operating and non-operating properties. These transactions may, individually or in the aggregate, result in material proceeds or outlays of cash and cause our capital expenditure levels to vary from period to period. In addition, we review leases that will expire in the short term in order to determine the appropriate action to take with respect to them.

Financing Activities

During 2017, the Company used net cash flows in financing activities of $2 million, which consisted of debt repayments of $1.4 billion and the payment of debt issuance costs of $43 million, offset by proceeds from debt issuances of $1.0 billion, an increase in short-term borrowings of $271 million and $106 million of net cash proceeds received from sale-leaseback financing transactions.

During 2016, we generated net cash flows from financing activities of $1.2 billion, which consisted of proceeds from debt issuances of $2.0 billion and $71 million of net cash proceeds received from a sale-leaseback financing transaction for five Sears Full-line stores and two Sears Auto Centers that have continuing involvement, partially offset by a decrease in short-term borrowings of $797 million, debt repayments of $66 million and the payment of debt issuance costs of $51 million.

During 2015, the Company used net cash flows in financing activities of $364 million, which consisted of debt repayments of $1.4 billion, of which $927 million was the purchase of Senior Secured Notes pursuant to the tender offer and $400 million was the repayment of the secured short-term loan, the payment of debt issuance costs of $50 million related to the amendment and extension of our Domestic Credit Facility and fees related to the tender offer related to our Senior Secured Notes. These uses of cash were partially offset by an increase in short-term borrowings of $583 million and $508 million of net cash proceeds from sale-leaseback financing, which consisted of $426 million of proceeds from the JV transactions received during 2015 and $82 million of proceeds received in 2015 related to four joint venture properties that have continuing involvement.

During 2017, 2016 and 2015, we did not repurchase any of our common shares under our share repurchase program. The common share repurchase program was initially announced in 2005 and had a total authorization since inception of the program of $6.5 billion. At February 3, 2018, we had approximately $504 million of remaining authorization under the program. The common share repurchase program has no stated expiration date and share repurchases may be implemented using a variety of methods, which may include open market purchases, privately negotiated transactions, block trades, accelerated share repurchase transactions, the purchase of call options, the sale of put options or otherwise, or by any combination of such methods.

Uses and Sources of Liquidity

Our primary need for liquidity is to fund working capital requirements of our businesses, capital expenditures and for general corporate purposes, including debt repayments and pension plan contributions. The Company has taken a number of actions to support its ongoing transformation efforts, while continuing to support its operations and meet its obligations in light of the incurred losses and negative cash flows experienced over the past several years. These actions included:

- The completion of various secured and unsecured financing transactions, the extension of the maturity of certain of our indebtedness, and the amendment to other terms of certain of our indebtedness to increase our overall financial flexibility, including:
  - a $750 million Senior Secured Term Loan (the "2016 Term Loan") under its domestic credit facility maturing in July 2020;
  - a $500 million real estate loan facility in April 2016 (the "2016 Secured Loan Facility"), initially maturing in July 2017, initially extended to January 2018, subsequently extended to April 2018, and then further extended to July 2018, subject to the payment of an extension fee;
  - an additional $500 million real estate loan facility in January 2017 (the "2017 Secured Loan Facility"), maturing in July 2020;
  - a Second Lien Credit Agreement in September 2016, pursuant to which the Company borrowed $300 million under a term loan (the "Second Lien Term Loan"), maturing in July 2020;
  - an amendment in July 2017 to the Second Lien Credit Agreement to provide for the creation of a $500 million uncommitted second-lien line of credit loan facility under which the Company may borrow line of credit loans (the "Line of Credit Loans"), and a subsequent amendment to that facility to extend the maximum duration of the Line of Credit Loans from 180 days to 270 days and permit total borrowings of up to $600 million;
  - a Letter of Credit and Reimbursement Agreement in December 2016, originally providing for up to a $500 million secured standby letter of credit facility (the "LC Facility") from certain affiliates of ESL Investments, Inc. ("ESL");
  - a $200 million real estate loan facility (the "Incremental Loans") in October 2017, with the Incremental Loans maturing in April 2018, with the option to extend to July 2018, subject to the extension of the 2016 Secured Loan Facility;
  - the extension of the maturity date of the initial $1.0 billion term loan (the "Term Loan") under our Amended Domestic Credit Agreement from June 2018 to January 2019 (with a right of the borrowers thereunder to further extend such maturity, subject to the satisfaction of certain conditions, to July 2019);
  - amendments to our Amended Domestic Credit Agreement and certain other indebtedness which reduced the aggregate revolver commitments from $1.971 billion to $1.5 billion, but also implemented other modifications to covenants and reserves against the domestic credit facility borrowing base that improved net liquidity, and increased the maximum permissible short-term borrowings of the Company from $750 million to $1.25 billion;
  - a Term Loan Credit Agreement in January 2018 providing for a secured term loan facility (the "Term Loan Facility"), secured by substantially all of the unencumbered intellectual property of the Company and its subsidiaries, other than intellectual property relating to the Kenmore and DieHard brands, as well as by certain real property interests, in each case subject to certain exclusions. An aggregate principal amount of $250 million was borrowed with the ability to borrow an additional $50 million against the same collateral;
  - an amendment to the indenture governing our 6 5/8% Senior Secured Notes due 2018 to increase the maximum permissible borrowings secured by inventory to 75% of book value of such inventory from 65% and defer the collateral coverage test for purposes of the repurchase offer covenant in the indenture to restart it with the second quarter of 2018 (such that no collateral coverage event can occur until the end of the third quarter of 2018);
  - an amendment to the March 2016 Pension Plan Protection and Forbearance Agreement (the "PPPFA") with the Pension Benefit Guaranty Corporation (the "PBGC") providing for the release of 138 of our properties from a ring-fence arrangement created under our five-year PPPFA in exchange for the payment of approximately $407 million into the Sears pension plans. This agreement provides the Company with financial flexibility through the ability to monetize properties, and, in addition, provides funding relief from contributions to the pension plans for the next two years; and

  - various commercial paper issuances to meet short-term liquidity needs, with the maximum amount outstanding during fiscal 2017 of $160 million.

- Achievement of $1.25 billion in annualized cost savings in 2017 as part of the restructuring program announced earlier this year. Actions taken to realize the annualized cost savings have included simplification of the organizational structure of Holdings, streamlining of operations, reducing unprofitable categories and the closure of under-performing stores. In 2017, we closed approximately 435 stores, and an additional 103 stores previously announced for closure are expected to be closed by the end of the first quarter of 2018. As a result of these actions, the Company has begun to see improvement in the operations in fiscal 2017, as the restructuring program actions, including the closing of unprofitable stores, have begun to take effect.
- The sale of the Craftsman brand to Stanley Black & Decker for consideration consisting of cash payments and a royalty.
- Sales of properties and investments for proceeds of $1.1 billion and $386 million in 2017 and 2016, respectively.

On March 8, 2018, the Company secured an additional $100 million incremental real estate loan (the "Second Incremental Loan"), pursuant to an amendment to the Second Amended and Restated Loan Agreement, dated as of October 18, 2017, with JPP, LLC and JPP II, LLC, entities affiliated with ESL Investments, Inc. The Second Incremental Loan is secured by the same real estate properties as the 2017 Secured Loan Facility, and certain properties under the previous Incremental Loans outstanding, and matures in July 2020. The Company used the proceeds from the Incremental Loan for general corporate purposes.

In March 2018, the Company also closed on the $200 million Secured Loan and the $240 million Mezzanine Loan, both as defined in Note 3 of Notes to Consolidated Financial Statements, in connection with the release of 138 of our properties from the ring-fence arrangement with the PBGC as described above. The properties, which have an aggregate appraised value of nearly $980 million, serve as collateral for the Secured Loan, and the Mezzanine Loan is secured by pledge of the equity interests in the direct parent company of the entities that own such properties. The Company contributed approximately $282 million of the proceeds of such loans to our pension plans, and deposited $125 million into an escrow for the benefit of our pension plans. The Mezzanine Loan Agreement, as defined in Note 3 of Notes to Consolidated Financial Statements, contains an uncommitted accordion feature pursuant to which we may incur additional loans of not more than $200 million in aggregate, subject to certain conditions, including that such additional loans not exceed an amount equal to the principal amount of the Secured Loan repaid. The Company expects to pay down the Secured Loan over the next three to six months using proceeds generated from the sale of the underlying properties.

In February 2018, the Company commenced private exchange offers for its outstanding 8% Senior Unsecured Notes Due 2019 and 6 5/8% Senior Secured Notes Due 2018 (the "Exchange Offers"), pursuant to which it offered to (1) issue in exchange for its outstanding 8% Senior Unsecured Notes Due 2019 (the "Old Senior Unsecured Notes") new 8% Senior Unsecured Notes Due 2019, of a like principal amount, convertible into common stock of the Company, with interest on such notes to be payable in kind at the Company's option (the "New Senior Unsecured Notes"), and (2) issue in exchange for its outstanding 6 5/8% Senior Secured Notes Due 2018 (the "Old Senior Secured Notes") new 6 5/8% Senior Secured Notes Due 2019, of a like principal amount, convertible into common stock of the Company, with interest on such notes to be payable in kind at the Company's option (the "New Senior Secured Notes"). The Exchange Offers expired on March 15, 2018. Approximately $214 million aggregate principal amount of the Old Senior Unsecured Notes and approximately $170 million aggregate principal amount of the Old Senior Secured Notes were validly tendered, accepted and canceled in the Exchange Offers, and the Company issued a like principal amount of New Senior Unsecured Notes and New Senior Secured Notes. The New Senior Unsecured Notes and New Senior Secured Notes are optionally convertible by the holders thereof into shares of the Company's common stock at conversion prices of $8.33 and $5.00, respectively, per share of common stock, and are mandatorily convertible at the Company's option if the volume weighted average trading price of the common stock on the NASDAQ exceeds $10.00 for a prescribed period. In connection with the closing of the Exchange Offers, the Company also obtained the requisite consent of holders of Old Senior Secured Notes to adopt amendments to the indenture governing those notes to eliminate substantially all of the restrictive covenants and certain events of default in the indenture, and make the liens securing senior second lien obligations, including the new Senior

Secured Notes and the Second Lien Term Loan described below, effectively senior to the liens securing junior second lien obligations, including the Old Senior Secured Notes.

Also in connection with the closing of the Exchange Offers, the Company entered into an amendment to its Second Lien Credit Agreement. The amendment provides the Company with the option to pay interest on its outstanding $300 million principal amount Second Lien Term Loan in kind, and also provides that the Company's obligation under the Second Lien Term Loan is convertible into common stock of the Company, on the same conversion terms as the New Senior Secured Notes. Also in connection with the closing of the Exchange Offers, the Company’s subsidiary, Sears Roebuck Acceptance Corp. ("SRAC"), consummated a private exchange with certain third parties of approximately $100 million in principal amount of senior unsecured notes issued by SRAC maturing between 2027 and 2043 and bearing interest at rates between 6.50% and 7.50% per annum, pursuant to which SRAC issued a like principal amount of new unsecured notes (the "SRAC Exchange Notes"). The SRAC Exchange Notes mature in March 2028 and bear interest at a rate of 7.0% per annum, and provide the Company with the option to pay such interest in kind at an interest rate of 12.0% per annum. The SRAC Exchange Notes are also guaranteed by the same subsidiaries of the Company that guarantee the New Senior Secured Notes.

On March 21, 2018, we obtained a $125 million FILO term loan (the "FILO Loan") from JPP, LLC and JPP II, LLC, entities affiliated with ESL, and Benefit Street 2018 LLC, an entity affiliated with Thomas J. Tisch, under our Amended Domestic Credit Agreement. The Company received approximately $122 million in net proceeds from the FILO Loan, which proceeds were using to reduce outstanding borrowings under our revolving credit facility. The FILO Loan has a maturity date of July 20, 2020, which is the same maturity date as the Company's revolving credit facility commitments, and does not amortize.

In addition to pursuing several transactions to adjust our capital structure in order to enhance our liquidity and financial position, the Company is also taking incremental actions to further streamline operations to drive profitability, including cost reductions of $200 million on an annualized basis in 2018 unrelated to store closures.

In addition to the actions taken above, the Company has other resources available to support its operations. Our domestic credit facility permits us up to $2.0 billion of second lien loan capacity (of which $1.1 billion was utilized at February 3, 2018) outside the credit agreement, all depending on the applicable and available borrowing base as defined in our applicable debt agreements, as well as our ability to secure commitments from lenders. We also have the ability to obtain longer-term secured financing maturing outside of the domestic credit facility maturity date which would not be subject to borrowing base limitations (see Note 3 of Notes to Consolidated Financial Statements). Other options available to us, which we will evaluate and execute as appropriate, include refinancing existing debt, borrowing against facilities in place with availability and additional real estate loans against unencumbered properties, which we have successfully executed in the past.

We also continue to explore ways to unlock value across a range of assets, including entering into or renegotiating commercial arrangements, and exploring ways to maximize the value of our Home Services, Innovel and Sears Auto Centers businesses, as well as our Kenmore and DieHard brands, through partnerships, sales or other means of externalization that could expand distribution of our brands and service offerings to realize significant growth. We expect to continue to right-size, redeploy and highlight the value of our assets, including monetizing our real estate portfolio and exploring potential asset sales, in our transition from an asset intensive, historically "store-only" based retailer to a more asset light, integrated membership-focused company.

We expect to continue to face a challenging competitive environment. While we continue to focus on our overall profitability, including managing expenses, we reported a loss in 2017, and were required to fund cash used in operating activities with cash from investing and financing activities. If we continue to experience operating losses, and we are not able to generate additional liquidity through the actions described below or through some combination of other actions, including real estate or other asset sales, while not expected, then our liquidity needs may exceed availability under our Amended Domestic Credit Agreement, our second lien line of credit loan facility and our other existing facilities, and we might need to secure additional sources of funds, which may or may not be available to us. A failure to secure such additional funds could cause us to be in default under the Amended Domestic Credit Agreement. Moreover, if the borrowing base (as calculated pursuant to our outstanding second lien debt) falls below the principal amount of such second lien debt plus the principal amount of any other indebtedness for borrowed money that is secured by liens on the collateral for such debt on the last day of any two consecutive quarters, it could trigger an obligation to repurchase our New Senior Secured Notes in an amount equal to such

deficiency. As of February 3, 2018, we are in a deferral period of the collateral coverage test and the calculation restarts in the second quarter of 2018 (such that no collateral coverage event can occur until the end of the third quarter of 2018). Additionally, a failure to generate additional liquidity could negatively impact our access to inventory or services that are important to the operation of our business.

We believe the following actions, some of which we expect, subject to our governance processes, to include related party participation and funding, are probable of occurring and will be sufficient to satisfy our liquidity needs for the next twelve months from the issuance of the financial statements:

- Sales of the properties securing the $200 million Secured Loan to fund the repayment of such Secured Loan;
- Additional borrowings under the Mezzanine Loan Agreement and the Term Loan Facility;
- Renegotiation of certain commercial arrangements;
- Monetization of the Kenmore brand;
- Extension of maturities beyond March 2019 of Line of Credit Loans under the Second Lien Credit Agreement, the 2016 Secured Loan Facility, the Incremental Secured Loan Facility and the LC Facility and the Term Loan under the Amended Domestic Credit Agreement;
- Additional borrowings secured by real estate assets or borrowings under the short-term basket; and
- Further restructurings to help manage expenses and improve profitability.

The PPPFA contains certain limitations on our ability to sell assets, which could impact our ability to complete asset sale transactions or our ability to use proceeds from those transactions to fund our operations. Therefore, the analysis of liquidity needs includes consideration of the applicable restrictions under the PPPFA. We expect that the actions outlined above will further enhance our liquidity and financial flexibility and we expect that these actions will be executed in alignment with the anticipated timing of our liquidity needs.

Our outstanding borrowings at February 3, 2018 and January 28, 2017 were as follows:

millions	**February 3, 2018**	**January 28, 2017**
Short-term borrowings:		
Unsecured commercial paper	$ —	$ —
Secured borrowings	271	—
Line of credit loans	500	—
Incremental loans	144	—
Long-term debt, including current portion:		
Notes, term loan and debentures outstanding	3,145	4,018
Capitalized lease obligations	72	145
Total borrowings	$ 4,132	$ 4,163

We fund our peak sales season working capital needs through our domestic revolving credit facility and commercial paper markets and secured short-term debt.

millions	2017	2016
Secured borrowings:		
Maximum daily amount outstanding during the period	$ 799	$ 1,150
Average amount outstanding during the period	374	334
Amount outstanding at period-end	271	—
Weighted average interest rate	6.2%	4.6%
Unsecured commercial paper:		
Maximum daily amount outstanding during the period	$ 160	$ 250
Average amount outstanding during the period	26	106
Amount outstanding at period-end	—	—
Weighted average interest rate	9.1%	7.9%
Line of credit loans:		
Maximum daily amount outstanding during the period	$ 500	$ —
Average amount outstanding during the period	214	—
Amount outstanding at period-end	500	—
Weighted average interest rate	10.2%	—%

Information about our Domestic Credit Agreement, Letter of Credit Facility, Secured Loan and Mezzanine Loan, Term Loan Facility, 2017 Secured Loan Facility, 2016 Secured Loan Facility, Second Lien Credit Agreement, Old Senior Secured Notes and New Senior Secured Notes, Old Senior Unsecured Notes and New Senior Unsecured Notes, Unsecured Commercial Paper, Secured Short-Term Loan and Wholly-owned Insurance Subsidiary and Intercompany Securities is included in Note 3 of Notes to Consolidated Financial Statements.

Domestic Pension Plans Funding

Contributions to our pension plans remain a significant use of our cash on an annual basis. While the Company's pension plans are frozen, and thus associates do not currently earn pension benefits, the Company has a legacy pension obligation for past service performed by Kmart and Sears associates. During 2017, we contributed $295 million to our domestic pension plans, including amounts contributed from the escrow created pursuant to the PPPFA. We estimate that our minimum pension funding obligations will be approximately $280 million in 2018 (excluding the $20 million supplemental payment described below) and approximately $276 million in 2019. As previously noted, the Company agreed to grant the PBGC a lien on, and subsequently contribute to the Company's pension plans, the value of the $250 million cash payment payable to the Company on the third anniversary of the Craftsman closing (the "Craftsman Receivable"). During the 13 weeks ended July 29, 2017, we sold the Craftsman Receivable to a third-party purchaser, and deposited the proceeds into an escrow for the benefit of our pension plans. We subsequently contributed a portion of the proceeds received from the sale of the Craftsman Receivable to our pension plans, which contribution was credited against the Company's minimum pension funding obligations in 2017. Under our agreement with the PBGC, the remaining proceeds will also be contributed to our pension plans, and when so contributed, will be fully credited against the Company's minimum pension funding obligations in 2018 and 2019.

The Company also agreed to grant a lien to the PBGC on the 15-year income stream relating to new Stanley Black & Decker sales of Craftsman products, and agreed to contribute the payments from Stanley Black & Decker under such income stream to the Company's pension plans, with such payments to be credited against the Company's minimum pension funding obligations starting no later than five years from the closing date. The Company also

agreed to grant the PBGC a lien on $100 million of real estate assets to secure the Company's minimum pension obligations through the end of 2019.

In November 2017, the Company announced an amendment to the PPPFA that allowed the Company to pursue the monetization of 138 of our properties that were subject to a ring-fence arrangement created under the PPPFA. In March 2018, the Company closed on the Secured Loan and the Mezzanine Loan, which transactions released the properties from the ring-fence arrangement. The Company contributed approximately $282 million of the proceeds of such loans to our pension plans, and deposited $125 million into an escrow for the benefit of our pension plans. Under our agreement with the PBGC, the escrowed amount will also be contributed to our pension plans and, when so contributed, will be fully credited against the Company’s minimum pension funding obligations in 2018 and 2019 described above. Following such transactions, the Company has been relieved of contributions to our pension plans for approximately two years (other than the contributions from escrow described above and a $20 million supplemental payment due in the second quarter of 2018). The ultimate amount of pension contributions could be affected by factors such as changes in applicable laws, as well as financial market and investment performance and demographic changes.

Contractual Obligations and Off-Balance Sheet Arrangements

Information concerning our obligations and commitments to make future payments under contracts such as debt and lease agreements, and under contingent commitments, is aggregated in the following table.

		Payments Due by Period				
Contractual Obligations	Total	Within 1 Year	1-3 Years	3-5 Years	After 5 Years	Other
millions						
Operating leases	$ 2,839	$ 537	$ 807	$ 534	$ 961	$ —
Short-term borrowings	915	915	—	—	—	—
Capital lease obligations	115	28	21	8	58	—
Royalty license fees[1]	60	36	24	—	—	—
Other	2	2	—	—	—	—
Pension funding obligations[2]	1,682	280	485	431	486	—
Long-term debt including current portion and interest	4,155	1,222	2,381	40	512	—
Liability and interest related to uncertain tax positions[3]	181	—	—	—	—	181
Total contractual obligations	$ 9,949	$ 3,020	$ 3,718	$ 1,013	$ 2,017	$ 181

(1) We pay royalties under various merchandise license agreements, which are generally based on sales of products covered under these agreements. We currently have license agreements for which we pay royalties, including those to use Joe Boxer and Everlast. Royalty license fees represent the minimum the Company is obligated to pay, regardless of sales, as guaranteed royalties under these license agreements.

(2) In March 2018, the Company contributed approximately $282 million to our pension plans and deposited $125 million into an escrow for the benefit of our pension plans, both from proceeds of the Secured Loan and the Mezzanine Loan. The remaining proceeds from the sale of the Craftsman Receivable are also held within an escrow for the benefit of our pension plans. Under our agreement with the PBGC, these escrowed amounts will be contributed to our pension plans and, when so contributed, will be fully credited against the Company's minimum pension funding obligations in 2018 and 2019. As a result of these transactions, the Company has been relieved of contributions to our pension plans for approximately two years (other than the contributions from escrow described above and a $20 million supplemental payment due in the second quarter of 2018). See Note 7 of Notes to Consolidated Financial Statements for further information.

(3) At February 3, 2018, our uncertain tax position liability and gross interest payable were $130 million and $51 million, respectively. We are unable to reasonably estimate the timing of liabilities and interest payments arising from uncertain tax positions in individual years due to the uncertainties in the timing of the effective settlement of tax positions.

Other Commercial Commitments

We issue various types of guarantees in the normal course of business. We had the following guarantees outstanding at February 3, 2018:

millions	Bank Issued	SRAC Issued	Other	Total
Standby letters of credit	$ 647	$ 6	$ —	$ 653
Commercial letters of credit	—	31	—	31
Secondary lease obligations and performance guarantee	—	—	164	164

The secondary lease obligations relate to certain store leases that have been assigned and previously divested Sears businesses. The secondary lease obligations represent the maximum potential amount of future payments, including renewal option periods pursuant to the lease agreements. We remain secondarily liable if the primary obligor defaults.

Application of Critical Accounting Policies and Estimates

In preparing the financial statements, certain accounting policies require considerable judgment to select the appropriate assumptions to calculate financial estimates. These estimates are complex and subject to an inherent degree of uncertainty. We base our estimates on historical experience, terms of existing contracts, evaluation of trends and other assumptions that we believe to be reasonable under the circumstances. We continually evaluate the information used to make these estimates as our business and the economic environment change. Although the use of estimates is pervasive throughout the financial statements, we consider an accounting estimate to be critical if:

- it requires assumptions to be made about matters that were highly uncertain at the time the estimate was made; and
- changes in the estimate that are reasonably likely to occur from period to period or different estimates that could have been selected would have a material effect on our financial condition, cash flows or results of operations.

Management believes the current assumptions and other considerations used to estimate amounts reflected in the financial statements are appropriate. However, if actual experience differs from the assumptions and the considerations used in estimating amounts, the resulting changes could have a material adverse effect on our consolidated results of operations, and in certain situations, could have a material adverse effect on our financial condition.

Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors and the Audit Committee has reviewed the disclosure presented below relating to the selection of these estimates.

The following is a summary of our most critical policies and estimates. See Note 1 of Notes to Consolidated Financial Statements for a listing of our other significant accounting policies.

Valuation of Inventory

Our inventory is valued at the lower of cost or market determined primarily using the retail inventory method ("RIM"). RIM is an averaging method that is commonly used in the retail industry. To determine inventory cost under RIM, inventory at its retail selling value is segregated into groupings of merchandise having similar characteristics, which are then converted to a cost basis by applying specific average cost factors for each grouping of merchandise. Cost factors represent the average cost-to-retail ratio for each merchandise group based upon the year purchasing activity for each store location. Accordingly, a significant assumption under the retail method is that inventory in each group is similar in terms of its cost-to-retail relationship and has similar turnover rates. Management monitors the content of merchandise in these groupings to prevent distortions that would have a material effect on inventory valuation.

RIM inherently requires management judgment and certain estimates that may significantly affect the ending inventory valuation, as well as gross margin. Among others, two significant estimates used in inventory valuation are the level and timing of permanent markdowns (clearance markdowns used to clear unproductive or slow-moving inventory) and shrinkage. Amounts are charged to cost of sales, buying and occupancy at the time the retail value of inventory is reduced through the use of permanent markdowns.

Factors considered in the determination of permanent markdowns include current and anticipated demand, customer preferences, age of the merchandise, fashion trends and weather conditions. In addition, inventory is also evaluated against corporate pre-determined historical markdown cadences. When a decision is made to permanently markdown merchandise, the resulting gross margin reduction is recognized in the period the markdown is recorded. The timing of the decision, particularly surrounding the balance sheet date, can have a significant effect on the results of operations.

Shrinkage is estimated as a percentage of sales for the period from the date of the last physical inventory to the end of the year. Physical inventories are taken annually for all stores and inventory records are adjusted accordingly. The shrinkage rate from the most recent physical inventory, in combination with historical experience, is used as the basis for the shrinkage accrual following the physical inventory.

Self-insurance Reserves

We use a combination of third-party insurance and/or self-insurance for a number of risks including workers' compensation, asbestos, environmental, automobile, warranty, product and general liability claims. General liability costs relate primarily to litigation that arises from store operations. Self-insurance reserves include actuarial estimates of both claims filed and carried at their expected ultimate settlement value and claims incurred but not yet reported. Our estimated claim amounts are discounted using a rate with a duration that approximates the duration of our self-insurance reserve portfolio. Our liability reflected in the Consolidated Balance Sheets represents an estimate of the ultimate cost of claims incurred at the balance sheet date. In estimating this liability, we utilize loss development factors based on Company-specific data to project the future development of incurred losses. Loss estimates are adjusted based upon actual claims settlements and reported claims. These projections are subject to a high degree of variability based upon future inflation rates, litigation trends, legal interpretations, benefit level changes and claim settlement patterns. Although we do not expect the amounts ultimately paid to differ significantly from our estimates, self-insurance reserves could be affected if future claim experience differs significantly from the historical trends and the actuarial assumptions. A 10% change in our self-insurance reserves would have impacted net loss by approximately $65 million.

Defined Benefit Pension Plans

The fundamental components of accounting for defined benefit pension plans consist of the compensation cost of the benefits earned, the interest cost from deferring payment of those benefits into the future and the results of investing any assets set aside to fund the obligation. Such retirement benefits were earned by associates ratably over their service careers. Therefore, the amounts reported in the income statement for these retirement plans have historically followed the same pattern. Accordingly, changes in the obligations or the value of assets to fund them have been recognized systematically and gradually over the associate's estimated period of service. The largest drivers of losses or charges in recent years have been the discount rate used to determine the present value of the obligation and the actual return on pension assets. We recognize the changes by amortizing experience gains/losses in excess of the 10% corridor into expense over the associated service period.

The Company's actuarial valuations utilize key assumptions including discount rates and expected returns on plan assets. We are required to consider current market conditions, including changes in interest rates and plan asset investment returns, in determining these assumptions. The determination of our obligations and expense for pension benefits is dependent upon certain assumptions used in calculating such amounts. Key assumptions used in the actuarial valuations include the discount rate, expected long-term rate of return on plan assets and mortality rate assumptions. To determine the discount rate used in the development of the benefit obligation and net periodic benefit cost, a cash flow matching analysis of the expected future benefit payments is performed. In addition to considering the results that cash flow matching produces, the Company gives consideration to changes in industry benchmark yield curve rates. Actuarial assumptions may differ materially from actual results due to changing market and economic conditions, changes in investment strategies, higher or lower withdrawal rates, and longer or shorter life spans of participants. For further information, see Note 7 of Notes to Consolidated Financial Statements.

The actual and expected return on plan assets for 2017, 2016 and 2015 were as follows:

	2017	2016	2015
Actual return on plan assets	7.98%	16.08%	(7.35)%
Expected return on plan assets	6.50%	6.50%	7.00 %

The Sears Holdings Corporation Investment Committee is responsible for the investment of the assets of Holdings' domestic pension plans. The Investment Committee, made up primarily of select members of senior management, has appointed a non-affiliated third party professional to advise the Investment Committee with respect to the assets of Holdings' domestic pension plans. The plans' overall investment objective is to provide a long-term return that, along with Company contributions, is expected to meet future benefit payment requirements. A long-term horizon has been adopted in establishing investment policy such that the likelihood and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. The plans' investment policies require investments to be diversified across individual securities, industries, market

capitalization and valuation characteristics. In addition, various techniques are utilized to monitor, measure and manage risk.

For purposes of determining the periodic expense of our defined benefit plans, we use the fair value of plan assets as the market related value. A one-percentage-point change in the assumed discount rate would have the following effects on the pension liabilities:

millions	1 percentage-point Increase	1 percentage-point Decrease
Effect on interest cost component	$ 20	$ (26)
Effect on pension benefit obligation	$ (384)	$ 460

Income Taxes

We account for income taxes according to accounting standards for such taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the book basis and tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. If future utilization of deferred tax assets is uncertain, the Company may record a valuation allowance against its deferred tax assets. Our accounting policies related to the valuation allowance are further described in Note 1 of Notes to Consolidated Financial Statements. After consideration of evidence regarding the ability to realize our deferred tax assets, we established a valuation allowance against deferred income tax assets in 2017, 2016 and 2015. For the year ended February 3, 2018, the valuation allowance decreased by $1.3 billion of which an increase of $62 million was recorded through other comprehensive income. The Company continues to monitor its operating performance and evaluate the likelihood of the future realization of these deferred tax assets.

Significant management judgment is required in determining our provision for income taxes, deferred tax assets and liabilities and the valuation allowance recorded against our net deferred tax assets, if any. Management considers estimates of the amount and character of future taxable income in assessing the likelihood of realization of deferred tax assets. Our actual effective tax rate and income tax expense could vary from estimated amounts due to the future impacts of various items, including changes in income tax laws, tax planning and the Company's forecasted financial condition and results of operations in future periods. Although management believes current estimates are reasonable, actual results could differ from these estimates.

Domestic and foreign tax authorities periodically audit our income tax returns. These audits include questions regarding our tax filing positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. In evaluating the exposures associated with our various tax filing positions, we record reserves in accordance with accounting standards for uncertain tax positions. A number of years may elapse before a particular matter, for which we have established a reserve, is audited and fully resolved. Management's estimates at the date of the financial statements reflect our best judgment, giving consideration to all currently available facts and circumstances. As such, these estimates may require adjustment in the future, as additional facts become known or as circumstances change. For further information, see Note 10 of Notes to Consolidated Financial Statements.

Goodwill and Intangible Asset Impairment Assessments

At both February 3, 2018 and January 28, 2017, we had goodwill balances of $269 million. At February 3, 2018 and January 28, 2017, we had intangible asset balances of $1.2 billion and $1.5 billion, respectively. The Company evaluates the carrying value of goodwill and intangible assets for possible impairment under accounting standards governing goodwill and other intangible assets. Our accounting policies related to goodwill and intangible asset impairment assessments are further described in Note 1 of Notes to Consolidated Financial Statements.

Goodwill Impairment Assessments

Our goodwill balance relates to our Home Services business. We did not record any goodwill impairment charges in 2017, 2016 or 2015.

The use of different assumptions, estimates or judgments in either step of the goodwill impairment testing process, such as the estimated future cash flows of the reporting unit, the discount rate used to discount such cash flows, or the estimated fair value of the reporting unit's tangible and intangible assets and liabilities, could significantly increase or decrease the estimated fair value of the reporting unit or its net assets. At the 2017 annual impairment test date, the conclusion that no indication of goodwill impairment existed for the reporting unit would not have changed had the test been conducted assuming: (1) a 100 basis point increase in the discount rate used to discount the aggregate estimated cash flows of the reporting unit to its net present value in determining their estimated fair values; and/or (2) a 100 basis point decrease in the estimated sales growth rate and/or terminal period growth rate.

Based on our sensitivity analysis, we do not believe that the remaining recorded goodwill balance is at risk of impairment at the reporting unit at the end of the year because the fair value is in excess of the carrying value and not at risk of failing step one. However, goodwill impairment charges may be recognized in future periods in the reporting unit to the extent changes in factors or circumstances occur, including deterioration in the macroeconomic environment, retail industry or in the equity markets, which includes the market value of our common shares, deterioration in our performance or our future projections, or changes in our plans for the reporting unit.

Intangible Asset Impairment Assessments

The majority of our indefinite-lived intangible assets relate to the Sears, Kenmore and DieHard trade names. In 2017, 2016 and 2015, we recorded impairment related to the Sears trade name of $72 million, $381 million and $180 million, respectively, which reduced the carrying value to $359 million at February 3, 2018 and $431 million at January 28, 2017.

The use of different assumptions, estimates or judgments in our intangible asset impairment testing process, such as the estimated future cash flows of assets and the discount rate used to discount such cash flows, could significantly increase or decrease the estimated fair value of an asset, and therefore, impact the related impairment charge. At the 2017 annual impairment test date, the above-noted conclusion that no indication of intangible asset impairment existed at the test date for the Kenmore and DieHard trade names would have changed had the test been conducted assuming: (1) a 100 basis point increase in the discount rate used to discount the aggregate estimated cash flows of our assets to their net present value in determining their estimated fair values (without any change in the aggregate estimated cash flows of our intangibles); (2) a 100 basis point decrease in the terminal period growth rate; (3) a 10% decrease in the revenue growth rate for fiscal year 2018; or (4) a 10 basis point decrease in the royalty rate applied to the forecasted net sales stream of our assets and would have resulted in a potential impairment of up to $99 million under any combination of those scenarios. Also, the above-noted impairment related to the Sears trade name would have changed under any combination of those scenarios and would have resulted in potential incremental impairment of up to $102 million.

We believe the impairment charges of $72 million, $381 million and $180 million in 2017, 2016 and 2015, respectively, are appropriate based on the judgments and estimates used in our analysis. We do not believe that the other indefinite-lived intangible balances are impaired at the end of the year because the fair values are in excess of the carrying values based on our analysis. However, further indefinite-lived intangible impairment charges may be recognized in future periods to the extent changes in factors or circumstances occur, including deterioration in the macroeconomic environment, retail industry, deterioration in our performance or our future projections, if actual results are not consistent with our estimates and assumptions used in the analysis, or changes in our plans for one or more indefinite-lived intangible assets. We will continue to monitor for such changes in facts or circumstances, which may be indicators of potential impairment triggers, and may result in impairment charges in the future, which could be material to our results of operations.

Impairment of Long-Lived Assets

In accordance with accounting standards governing the impairment or disposal of long-lived assets, the carrying value of long-lived assets, including property and equipment and definite-lived intangible assets, is evaluated whenever events or changes in circumstances indicate that a potential impairment has occurred relative to a given asset or assets. Our accounting policies related to long-lived asset impairment assessments are further described in Note 1 of Notes to Consolidated Financial Statements. As a result of this impairment testing, the

Company recorded impairment charges of $70 million, $46 million and $94 million during 2017, 2016 and 2015, respectively. Our impairment testing includes uncertainty because it requires management to make assumptions and to apply judgment to estimate future cash flows and asset fair values. If actual results are not consistent with our estimates and assumptions used in estimating future cash flows and asset fair values, we may be exposed to additional impairment charges in the future, which could be material to our results of operations.

New Accounting Pronouncements

See Note 1 of Notes to Consolidated Financial Statements for information regarding new accounting pronouncements.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements made in this Annual Report on Form 10-K and in other public announcements by us contain forward-looking statements within the meaning of the Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements include information concerning our future financial performance, business strategy, plans, goals and objectives. Statements preceded or followed by, or that otherwise include, the words "believes," "expects," "anticipates," "intends," "estimates," "plans," "forecast," "is likely to" and similar expressions or future or conditional verbs such as "will," "may" and "could" are generally forward-looking in nature and not historical facts. Such statements are based upon the current beliefs and expectations of the Company's management and are subject to significant risks and uncertainties, many of which are beyond the Company's control, which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Actual results may differ materially from those set forth in the forward-looking statements.

The following factors, among others, could cause actual results to differ from those set forth in the forward-looking statements: our ability to offer merchandise and services that meet our customers and members' needs; our ability to successfully implement our integrated retail strategy to transform our business; our ability to successfully manage our inventory levels; initiatives to improve our liquidity through inventory management and other actions; our substantial level of indebtedness and related debt service obligations and restrictions imposed by covenants in our debt agreements, vendors' lack of willingness to provide acceptable payment terms or otherwise restricting financing to purchase inventory or services; possible limits on our access to our domestic credit facility, which is subject to a borrowing base limitation and a springing fixed charge coverage ratio covenant, capital markets and other financing sources, including additional second lien financings, with respect to which we do not have commitments from lenders; our ability to successfully achieve our plans to generate liquidity through potential transactions or otherwise; our ability to achieve cost savings initiatives; our failure to implement and execute an effective advertising and marketing strategy; potential liabilities in connection with the separations of Sears Hometown and Outlet Stores and Lands' End and disposition of a portion of our ownership interest in Sears Canada or other transactions; failure to realize the anticipated benefits from the Craftsman Sale; payment-related risks that could increase our operating costs, expose us to fraud or theft, subject us to potential liability and potentially disrupt our business operations; the impact of seasonal buying patterns, including seasonal fluctuations due to weather conditions, which are difficult to forecast with certainty; fluctuations in our sales due to changes in customers' spending patterns and prevailing economic conditions; risks and uncertainties related to the Seritage transaction and the amendment and extension of our credit facility, such as the impact of the evaluation of any such transaction on our other businesses; our dependence on sources outside the United States for significant amounts of our merchandise; our reliance on third parties to provide us with services in connection with the administration of certain aspects of our business and the transfer of significant internal historical knowledge to such parties; impairment charges for goodwill and intangible assets or fixed-asset impairment for long-lived assets; our ability to attract, motivate and retain key executives and other associates; the substantial influence exerted over the Company by affiliates of our Chairman and Chief Executive Officer, whose interests may diverge from other stockholders' interests; our ability to protect or preserve the image of our brands and our intellectual property; the outcome of pending and/or future legal proceedings; our failure to comply with federal, state, local and international laws, or changes in these laws; and the timing, amount and other risks related to required pension plan funding.

Certain of these and other factors are discussed in more detail in Part I, Item 1A of this Annual Report on Form 10-K. While we believe that our forecasts and assumptions are reasonable, we caution that actual results may differ materially. We intend the forward-looking statements to speak only as of the time made and do not undertake to update or revise them as more information becomes available, except as required by law.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We face market risk exposure in the form of interest rate risk. This market risk arises from our debt obligations.

Interest Rate Risk

We manage interest rate risk through the use of fixed and variable-rate funding. All debt securities are considered non-trading. At February 3, 2018, 42% of our debt portfolio was variable rate. Based on the size of this variable rate debt portfolio at February 3, 2018, which totaled approximately $1.8 billion, an immediate 100 basis point change in interest rates would have affected annual pretax funding costs by $18 million. These estimates do not take into account the effect on income resulting from invested cash or the returns on assets being funded. These estimates also assume that the variable rate funding portfolio remains constant for an annual period and that the interest rate change occurs at the beginning of the period.

Item 8. Financial Statements and Supplementary Data

SEARS HOLDINGS CORPORATION
Consolidated Statements of Operations

dollars in millions, except per share data	2017	2016	2015
REVENUES			
Merchandise sales	$ 13,409	$ 18,236	$ 20,936
Services and other[(1)(2)]	3,293	3,902	4,210
Total revenues	16,702	22,138	25,146
COSTS AND EXPENSES			
Cost of sales, buying and occupancy - merchandise sales[(3)]	11,349	15,184	16,817
Cost of sales and occupancy - services and other[(1)]	1,826	2,268	2,519
Total cost of sales, buying and occupancy	13,175	17,452	19,336
Selling and administrative	5,131	6,109	6,857
Depreciation and amortization	332	375	422
Impairment charges	142	427	274
Gain on sales of assets	(1,648)	(247)	(743)
Total costs and expenses	17,132	24,116	26,146
Operating loss	(430)	(1,978)	(1,000)
Interest expense	(539)	(404)	(323)
Interest and investment loss	(12)	(26)	(62)
Other income	—	13	—
Loss before income taxes	(981)	(2,395)	(1,385)
Income tax benefit	598	174	257
Net loss	(383)	(2,221)	(1,128)
Income attributable to noncontrolling interests	—	—	(1)
NET LOSS ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS	$ (383)	$ (2,221)	$ (1,129)
NET LOSS PER COMMON SHARE ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS			
Basic loss per share	$ (3.57)	$ (20.78)	$ (10.59)
Diluted loss per share	$ (3.57)	$ (20.78)	$ (10.59)
Basic weighted average common shares outstanding	107.4	106.9	106.6
Diluted weighted average common shares outstanding	107.4	106.9	106.6

(1) Includes merchandise sales to Sears Hometown and Outlet Stores, Inc. ("SHO") of $918 million, $1.1 billion and $1.3 billion in 2017, 2016 and 2015, respectively. Pursuant to the terms of the separation, merchandise is sold to SHO at cost.

(2) Includes revenue from Lands' End, Inc. ("Lands' End") for retail services and rent for Lands' End Shops at Sears, participation in the Shop Your Way program and corporate shared services of $47 million, $52 million and $59 million in 2017, 2016 and 2015, respectively.

(3) Includes rent expense (consisting of straight-line rent expense offset by amortization of a deferred gain on sale-leaseback) of $70 million, $83 million and $49 million in 2017, 2016, and 2015, respectively, and installment expenses of $43 million, $64 million and $40 million in 2017, 2016 and 2015, respectively, pursuant to the master lease with Seritage Growth Properties ("Seritage").

See accompanying Notes to Consolidated Financial Statements.

SEARS HOLDINGS CORPORATION
Consolidated Statements of Comprehensive Income (Loss)

millions	2017	2016	2015
Net loss	$ (383)	$ (2,221)	$ (1,128)
Other comprehensive income (loss)			
Pension and postretirement adjustments, net of tax	478	366	113
Currency translation adjustments, net of tax	2	—	(1)
Dissolution of noncontrolling interest	—	(7)	—
Total other comprehensive income	480	359	112
Comprehensive income (loss)	97	(1,862)	(1,016)
Comprehensive (income) loss attributable to noncontrolling interests	—	7	(1)
Comprehensive income (loss) attributable to Holdings' shareholders	$ 97	$ (1,855)	$ (1,017)

See accompanying Notes to Consolidated Financial Statements.

SEARS HOLDINGS CORPORATION
Consolidated Balance Sheets

millions	February 3, 2018	January 28, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 182	$ 286
Restricted cash	154	—
Accounts receivable[1]	343	466
Merchandise inventories	2,798	3,959
Prepaid expenses and other current assets[2]	335	285
Total current assets	3,812	4,996
Property and equipment		
Land	659	770
Buildings and improvements	2,432	2,954
Furniture, fixtures and equipment	868	1,133
Capital leases	151	224
Gross property and equipment	4,110	5,081
Less accumulated depreciation and amortization	(2,381)	(2,841)
Total property and equipment, net	1,729	2,240
Goodwill	269	269
Trade names and other intangible assets	1,168	1,521
Other assets	284	336
TOTAL ASSETS	$ 7,262	$ 9,362
LIABILITIES		
Current liabilities		
Short-term borrowings[3]	$ 915	$ —
Current portion of long-term debt and capitalized lease obligations[4]	968	590
Merchandise payables	576	1,048
Other current liabilities[5]	1,568	1,956
Unearned revenues	641	748
Other taxes	247	339
Total current liabilities	4,915	4,681
Long-term debt and capitalized lease obligations[6]	2,249	3,573
Pension and postretirement benefits	1,619	1,750
Deferred gain on sale-leaseback	362	563
Sale-leaseback financing obligation	247	235
Other long-term liabilities	1,467	1,641
Long-term deferred tax liabilities	126	743
Total Liabilities	10,985	13,186
Commitments and contingencies		
DEFICIT		
Sears Holdings Corporation deficit		
Preferred stock, 20 shares authorized; no shares outstanding	—	—
Common stock $0.01 par value; 500 shares authorized; 108 and 107 shares outstanding, respectively	1	1
Treasury stock—at cost	(5,820)	(5,891)
Capital in excess of par value	9,063	9,130
Retained deficit	(5,895)	(5,512)
Accumulated other comprehensive loss	(1,072)	(1,552)
Total Deficit	(3,723)	(3,824)
TOTAL LIABILITIES AND DEFICIT	$ 7,262	$ 9,362

(1) Includes $28 million and $81 million at February 3, 2018 and January 28, 2017, respectively, of net amounts receivable from SHO, $1 million and $14 million of amounts receivable from Seritage at February 3, 2018 and January 28, 2017, respectively, and $1 million of net amounts receivable from Lands' End at February 3, 2018.

(2) Includes $6 million of prepaid rent to Seritage at February 3, 2018.

(3) Includes balances held by related parties of $645 million at February 3, 2018 related to our Line of Credit Loans and Incremental Loans (each as defined in Note 3). See Notes 3 and 15 for further information.

(4) Includes balances held by related parties of $146 million and $216 million at February 3, 2018 and January 28, 2017, respectively, related to our 2016 Secured Loan Facility for both periods and also related to our Senior Secured Notes at February 3, 2018. See Note 3 for defined terms.

(5) Includes $1 million of net amounts payable to Lands' End and $11 million of amounts payable to Seritage at January 28, 2017.

(6) Includes balances held by related parties of $1.5 billion and $1.7 billion at February 3, 2018 and January 28, 2017, respectively, related to our Subsidiary Notes, Senior Unsecured Notes, Second Lien Term Loan, 2016 Term Loan and 2017 Secured Loan Facility for both periods and also related to our Term Loan Facility at February 3, 2018 and our Senior Secured Notes at January 28, 2017. See Note 3 for defined terms and Notes 3 and 15 for further information.

See accompanying Notes to Consolidated Financial Statements.

SEARS HOLDINGS CORPORATION
Consolidated Statements of Cash Flows

millions	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (383)	$ (2,221)	$ (1,128)
Adjustments to reconcile net loss to net cash used in operating activities:			
Deferred tax valuation allowance	(1,395)	836	217
Tax benefit resulting from Other Comprehensive Income allocation	—	(71)	—
Depreciation and amortization	332	375	422
Impairment charges	142	427	274
Gain on sales of assets	(1,648)	(247)	(743)
Pension and postretirement plan contributions	(312)	(334)	(311)
Pension plan settlements	479	—	—
Mark-to-market adjustments of financial instruments	17	15	66
Amortization of deferred gain on sale-leaseback	(78)	(88)	(52)
Amortization of debt issuance costs and accretion of debt discount	124	81	60
Other	(36)	—	—
Change in operating assets and liabilities (net of acquisitions and dispositions):			
Deferred income taxes	778	(987)	(519)
Merchandise inventories	1,144	1,213	(229)
Merchandise payables	(472)	(526)	(47)
Income and other taxes	(108)	80	(95)
Other operating assets	51	(52)	54
Other operating liabilities	(477)	118	(136)
Net cash used in operating activities	(1,842)	(1,381)	(2,167)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of property and investments[(1)]	1,109	386	2,730
Proceeds from Craftsman Sale	572	—	—
Proceeds from sales of receivables[(2)]	293	—	—
Purchases of property and equipment	(80)	(142)	(211)
Net cash provided by investing activities	1,894	244	2,519
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from debt issuances[(3)]	1,020	2,028	—
Repayments of debt[(4)]	(1,356)	(66)	(1,405)
Increase (decrease) in short-term borrowings, primarily 90 days or less	271	(797)	583
Proceeds from sale-leaseback financing[(1)]	106	71	508
Debt issuance costs[(5)]	(43)	(51)	(50)
Net cash provided by (used in) financing activities	(2)	1,185	(364)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	50	48	(12)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH BEGINNING OF YEAR	286	238	250
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH END OF YEAR	$ 336	$ 286	$ 238
SUPPLEMENTAL INFORMATION:			
Capital lease obligation incurred	$ —	$ 25	$ 6
Supplemental Cash Flow Data:			
Income taxes paid, net of refunds	$ 37	$ 23	$ 45
Cash interest paid[(6)]	412	275	252
Unpaid liability to acquire equipment and software	10	18	27

(1) Holdings received cash proceeds of $2.7 billion ($2.6 billion, net of closing costs) from the Seritage transaction (including $745 million and $297 million, respectively, received from ESL Investments, Inc. and its affiliates ("ESL") and Fairholme Capital Management, LLC and its affiliates ("Fairholme")), and $429 million ($426 million, net of closing costs) from the JV transactions. Proceeds from the Seritage transaction are included in proceeds from sales of property and investments ($2.6 billion), and proceeds from sale-leaseback financing ($82 million) for 2015. Proceeds from the JV transactions are included in proceeds from sale-leaseback financing ($426 million) for 2015. See Note 11 for further information and defined terms.

(2) Proceeds in 2017 include $63 million from JPP, LLC and JPP II, LLC, entities affiliated with ESL (as defined in Note 1), for the sale of receivables.

(3) Proceeds in 2017 and 2016, respectively, include amounts from related parties of $876 million in connection with the Term Loan Facility, Line of Credit Loans and Incremental Loans and $1.3 billion received from the 2017 Secured Loan Facility, 2016 Secured Loan Facility, 2016 Term Loan and Second Lien Term Loan. See Notes 3 and 15 for further information and defined terms.

(4) Repayments in 2017 and 2015, respectively, include $345 million to related parties in connection with the 2017 Secured Loan Facility, 2016 Secured Loan Facility, Incremental Loans, 2016 Term Loan and Line of Credit Loans and $400 million of the Secured Short-Term Loan with related parties and $482 million of Senior Secured Notes tendered by related parties, respectively. See Notes 3 and 15 for further information and defined terms.

(5) Includes one-time extension fees equal to $5 million to JPP, LLC and JPP II, LLC, entities affiliated with ESL during 2017. See Note 3 for further information.

(6) Cash interest paid includes $180 million, $94 million and $83 million interest paid to related parties related to our borrowings in 2017, 2016 and 2015, respectively. See Notes 3 and 15 for further information.

See accompanying Notes to Consolidated Financial Statements.

SEARS HOLDINGS CORPORATION
Consolidated Statements of Deficit

dollars and shares in millions	Number of Shares	Common Stock	Treasury Stock	Capital in Excess of Par Value	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
	Deficit Attributable to Holdings' Shareholders							
Balance at January 31, 2015	107	$ 1	$ (5,949)	$ 9,189	$ (2,162)	$ (2,030)	$ 6	$ (945)
Comprehensive loss								
Net loss	—	—	—	—	(1,129)	—	1	(1,128)
Pension and postretirement adjustments, net of tax	—	—	—	—	—	113	—	113
Currency translation adjustments, net of tax	—	—	—	—	—	(1)	—	(1)
Total Comprehensive Loss								(1,016)
Stock awards	—	—	16	(16)	—	—	—	—
Associate stock purchase	—	—	5	—	—	—	—	5
Balance at January 30, 2016	107	$ 1	$ (5,928)	$ 9,173	$ (3,291)	$ (1,918)	$ 7	$ (1,956)
Comprehensive loss								
Net loss	—	—	—	—	(2,221)	—	—	(2,221)
Pension and postretirement adjustments, net of tax	—	—	—	—	—	366	—	366
Dissolution of noncontrolling interest	—	—	—	—	—	—	(7)	(7)
Total Comprehensive Loss								(1,862)
Stock awards	—	—	29	(30)	—	—	—	(1)
Reclassification of warrants	—	—	—	(13)	—	—	—	(13)
Associate stock purchase	—	—	8	—	—	—	—	8
Balance at January 28, 2017	107	$ 1	$ (5,891)	$ 9,130	$ (5,512)	$ (1,552)	$ —	$ (3,824)
Comprehensive income								
Net loss	—	—	—	—	(383)	—	—	(383)
Pension and postretirement adjustments, net of tax	—	—	—	—	—	478	—	478
Currency translation adjustments, net of tax	—	—	—	—	—	2	—	2
Total Comprehensive Income								97
Stock awards	1	—	63	(67)	—	—	—	(4)
Associate stock purchase	—	—	8	—	—	—	—	8
Balance at February 3, 2018	108	$ 1	$ (5,820)	$ 9,063	$ (5,895)	$ (1,072)	$ —	$ (3,723)

See accompanying Notes to Consolidated Financial Statements.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations, Consolidation and Basis of Presentation

Sears Holdings Corporation ("Holdings") is the parent company of Kmart Holding Corporation ("Kmart") and Sears, Roebuck and Co. ("Sears"). Holdings (together with its subsidiaries, "we," "us," "our," or the "Company") was formed as a Delaware corporation in 2004 in connection with the merger of Kmart and Sears (the "Merger"), on March 24, 2005. We are an integrated retailer with 1,002 full-line and specialty retail stores in the United States, operating through Kmart and Sears. We operate in two reportable segments: Kmart and Sears Domestic.

The consolidated financial statements include all majority-owned subsidiaries in which Holdings exercises control. Investments in companies in which Holdings exercises significant influence, but which we do not control (generally 20% to 50% ownership interest), are accounted for under the equity method of accounting. Investments in companies in which we have less than a 20% ownership interest and do not exercise significant influence are accounted for at cost. All intercompany transactions and balances have been eliminated.

Fiscal Year

Our fiscal year ends on the Saturday closest to January 31 each year. Fiscal year 2017 consisted of 53 weeks. Fiscal years 2016 and 2015 consisted of 52 weeks. Unless otherwise stated, references to years in this report relate to fiscal years rather than to calendar years.

Pension Benefit Guaranty Corporation Agreement

On March 18, 2016, we entered into a five-year pension plan protection and forbearance agreement (the "PPPFA") with the Pension Benefit Guaranty Corporation ("PBGC"), pursuant to which the Company has agreed to continue to protect, or "ring-fence," pursuant to customary covenants, the assets of certain special purpose subsidiaries (the "Relevant Subsidiaries") holding real estate and/or intellectual property assets. Also under the agreement, the Relevant Subsidiaries granted the PBGC a springing lien on the ring-fenced assets, which lien will be triggered only by (a) failure to make required contributions to the Company's pension plans (the "Plans"), (b) prohibited transfers of ownership interests in the Relevant Subsidiaries, (c) termination events with respect to the Plans, or (d) bankruptcy events with respect to the Company or certain of its material subsidiaries. In November 2017, the Company announced an amendment to the PPPFA which is further described below and in Note 7. Under the PPPFA, the PBGC has agreed to forbear from initiating an involuntary termination of the Plans, except upon the occurrence of specified conditions, one of which is based on the aggregate market value of the Company's issued and outstanding stock. As of the date of this report, the Company's stock price is such that the PBGC would be permitted to cease forbearance. The PBGC has been given notice in accordance with the terms of the PPPFA and has not communicated any intention to cease its forbearance. In November 2017, we entered into an amendment to the PPPFA which provided for the release of 138 of our properties from a ring-fence arrangement, which is further described below and in Note 7. In March 2018, we closed on the $200 million Secured Loan and the $240 million Mezzanine Loan, both as defined in Note 3, in connection with the release of 138 properties from the ring-fence arrangement with the PBGC.

Craftsman Brand Sale

On January 5, 2017, Holdings announced that it had entered into a definitive agreement under which Stanley Black & Decker would purchase the Craftsman brand from Holdings (the "Craftsman Sale"). On March 8, 2017, the Company closed its sale of the Craftsman brand to Stanley Black & Decker. The transaction provides Stanley Black & Decker with the right to develop, manufacture and sell Craftsman-branded products outside of Holdings and Sears Hometown & Outlet Stores, Inc. distribution channels. As part of the agreement, Holdings is permitted to continue to offer Craftsman-branded products, sourced from existing suppliers, through its current retail channels via a perpetual license from Stanley Black & Decker, which will be royalty-free for the first 15 years after closing and royalty-bearing thereafter.

The Company received an initial upfront payment of $525 million, subject to closing costs and an adjustment for working capital changes, at closing. In addition, Stanley Black & Decker will pay a further $250 million in cash

in three years (the "Craftsman Receivable") and Holdings will receive payments of between 2.5% and 3.5% on new Stanley Black & Decker sales of Craftsman products made during the 15 year period following the closing. In connection with the Craftsman Sale, we recognized a gain in our Kmart segment of $492 million within gain on sales of assets in the Consolidated Statements of Operations during 2017, and initially established a receivable of $234 million for the net present value of the Craftsman Receivable. During the 13 weeks ended July 29, 2017, we sold the Craftsman Receivable to a third-party purchaser.

In connection with the closing of the Craftsman Sale, Holdings reached an agreement with the PBGC pursuant to which the PBGC consented to the sale of the Craftsman-related assets that had been "ring-fenced" under the PPPFA and certain related transactions. As a condition to obtaining this consent, the Company agreed to grant the PBGC a lien on, and subsequently contribute to the Company's pension plans, the value of the Craftsman Receivable, with such payments being fully credited against certain of the Company's minimum pension funding obligations in 2017, 2018 and 2019.

The Company also granted a lien to the PBGC on the 15-year income stream relating to new Stanley Black & Decker sales of Craftsman products, and agreed to contribute the payments from Stanley Black & Decker under such income stream to the Company's pension plans, with such payments to be credited against the Company's minimum pension funding obligations starting no later than five years from the closing date. The Company also agreed to grant the PBGC a lien on $100 million of real estate assets to secure the Company's minimum pension funding obligations through the end of 2019, and agreed to certain other amendments to the PPPFA.

Uses and Sources of Liquidity

Our primary need for liquidity is to fund working capital requirements of our businesses, capital expenditures and for general corporate purposes, including debt repayments and pension plan contributions. The Company has taken a number of actions to support its ongoing transformation efforts, while continuing to support its operations and meet its obligations in light of the incurred losses and negative cash flows experienced over the past several years. These actions included:

- The completion of various secured and unsecured financing transactions, the extension of the maturity of certain of our indebtedness, and the amendment to other terms of certain of our indebtedness to increase our overall financial flexibility, including:
    - a $750 million Senior Secured Term Loan (the "2016 Term Loan") under its domestic credit facility maturing in July 2020;
    - a $500 million real estate loan facility in April 2016 (the "2016 Secured Loan Facility"), initially maturing in July 2017, initially extended to January 2018, subsequently extended to April 2018, and then further extended to July 2018, subject to the payment of an extension fee;
    - an additional $500 million real estate loan facility in January 2017 (the "2017 Secured Loan Facility"), maturing in July 2020;
    - a Second Lien Credit Agreement in September 2016, pursuant to which the Company borrowed $300 million under a term loan (the "Second Lien Term Loan"), maturing in July 2020;
    - an amendment in July 2017 to the Second Lien Credit Agreement to provide for the creation of a $500 million uncommitted second-lien line of credit loan facility under which the Company may borrow line of credit loans (the "Line of Credit Loans"), and a subsequent amendment to that facility to extend the maximum duration of the Line of Credit Loans from 180 days to 270 days and permit total borrowings of up to $600 million;
    - a Letter of Credit and Reimbursement Agreement in December 2016, originally providing for up to a $500 million secured standby letter of credit facility (the "LC Facility") from certain affiliates of ESL Investments, Inc. ("ESL");
    - a $200 million real estate loan facility (the "Incremental Loans") in October 2017, with the Incremental Loans maturing in April 2018, with the option to extend to July 2018, subject to the extension of the 2016 Secured Loan Facility;

  - the extension of the maturity date of the initial $1.0 billion term loan (the "Term Loan") under our Amended Domestic Credit Agreement from June 2018 to January 2019 (with a right of the borrowers thereunder to further extend such maturity, subject to the satisfaction of certain conditions, to July 2019);
  - amendments to our Amended Domestic Credit Agreement and certain other indebtedness which reduced the aggregate revolver commitments from $1.971 billion to $1.5 billion, but also implemented other modifications to covenants and reserves against the domestic credit facility borrowing base that improved net liquidity, and increased the maximum permissible short-term borrowings of the Company from $750 million to $1.25 billion;
  - a Term Loan Credit Agreement in January 2018 providing for a secured term loan facility (the "Term Loan Facility"), secured by substantially all of the unencumbered intellectual property of the Company and its subsidiaries, other than intellectual property relating to the Kenmore and DieHard brands, as well as by certain real property interests, in each case subject to certain exclusions. An aggregate principal amount of $250 million was borrowed with the ability to borrow an additional $50 million against the same collateral;
  - an amendment to the indenture governing our 6 5/8% Senior Secured Notes due 2018 to increase the maximum permissible borrowings secured by inventory to 75% of book value of such inventory from 65% and defer the collateral coverage test for purposes of the repurchase offer covenant in the indenture to restart it with the second quarter of 2018 (such that no collateral coverage event can occur until the end of the third quarter of 2018);
  - an amendment to the PPPFA with the PBGC providing for the release of 138 of our properties from a ring-fence arrangement created under our five-year PPPFA in exchange for the payment of approximately $407 million into the Sears pension plans. This agreement provides the Company with financial flexibility through the ability to monetize properties, and, in addition, provides funding relief from contributions to the pension plans for the next two years; and
  - various commercial paper issuances to meet short-term liquidity needs, with the maximum amount outstanding during fiscal 2017 of $160 million.
- Achievement of $1.25 billion in annualized cost savings in 2017 as part of the restructuring program announced earlier this year. Actions taken to realize the annualized cost savings have included simplification of the organizational structure of Holdings, streamlining of operations, reducing unprofitable categories and the closure of under-performing stores. In 2017, we closed approximately 435 stores, and an additional 103 stores previously announced for closure are expected to be closed by the end of the first quarter of 2018. As a result of these actions, the Company has begun to see improvement in the operations in fiscal 2017, as the restructuring program actions, including the closing of unprofitable stores, have begun to take effect.
- The sale of the Craftsman brand to Stanley Black & Decker for consideration consisting of cash payments and a royalty.
- Sales of properties and investments for proceeds of $1.1 billion and $386 million in 2017 and 2016, respectively.

On March 8, 2018, the Company secured an additional $100 million incremental real estate loan (the "Second Incremental Loan"), pursuant to an amendment to the Second Amended and Restated Loan Agreement, dated as of October 18, 2017, with JPP, LLC and JPP II, LLC, entities affiliated with ESL Investments, Inc. The Second Incremental Loan is secured by the same real estate properties as the 2017 Secured Loan Facility, and certain properties under the previous Incremental Loans outstanding, and matures in July 2020. The Company used the proceeds from the Incremental Loan for general corporate purposes.

In March 2018, the Company also closed on the $200 million Secured Loan and the $240 million Mezzanine Loan, both as defined in Note 3, in connection with the release of 138 of our properties from the ring-fence arrangement with the PBGC as described above. The properties, which have an aggregate appraised value of nearly $980 million, serve as collateral for the Secured Loan, and the Mezzanine Loan is secured by pledge of the equity interests in the direct parent company of the entities that own such properties. The Company contributed approximately $282 million of the proceeds of such loans to our pension plans, and deposited $125 million into an escrow for the benefit of our pension plans. The Mezzanine Loan Agreement, as defined in Note 3, contains an uncommitted accordion feature pursuant to which we may incur additional loans of not more than $200 million in

aggregate, subject to certain conditions, including that such additional loans not exceed an amount equal to the principal amount of the Secured Loan repaid. The Company expects to pay down the Secured Loan over the next three to six months using proceeds generated from the sale of the underlying properties.

In February 2018, the Company commenced private exchange offers for its outstanding 8% Senior Unsecured Notes Due 2019 and 6 5/8% Senior Secured Notes Due 2018 (the "Exchange Offers"), pursuant to which it offered to (1) issue in exchange for its outstanding 8% Senior Unsecured Notes Due 2019 (the "Old Senior Unsecured Notes") new 8% Senior Unsecured Notes Due 2019, of a like principal amount, convertible into common stock of the Company, with interest on such notes to be payable in kind at the Company's option (the "New Senior Unsecured Notes"), and (2) issue in exchange for its outstanding 6 5/8% Senior Secured Notes Due 2018 (the "Old Senior Secured Notes") new 6 5/8% Senior Secured Notes Due 2019, of a like principal amount, convertible into common stock of the Company, with interest on such notes to be payable in kind at the Company's option (the "New Senior Secured Notes"). The Exchange Offers expired on March 15, 2018. Approximately $214 million aggregate principal amount of the Old Senior Unsecured Notes and approximately $170 million aggregate principal amount of the Old Senior Secured Notes were validly tendered, accepted and canceled in the Exchange Offers, and the Company issued a like principal amount of New Senior Unsecured Notes and New Senior Secured Notes. The New Senior Unsecured Notes and New Senior Secured Notes are optionally convertible by the holders thereof into shares of the Company's common stock at conversion prices of $8.33 and $5.00, respectively, per share of common stock, and are mandatorily convertible at the Company's option if the volume weighted average trading price of the common stock on the NASDAQ exceeds $10.00 for a prescribed period. In connection with the closing of the Exchange Offers, the Company also obtained the requisite consent of holders of Old Senior Secured Notes to adopt amendments to the indenture governing those notes to eliminate substantially all of the restrictive covenants and certain events of default in the indenture, and make the liens securing senior second lien obligations, including the new Senior Secured Notes and the Second Lien Term Loan described below, effectively senior to the liens securing junior second lien obligations, including the Old Senior Secured Notes.

Also in connection with the closing of the Exchange Offers, the Company entered into an amendment to its Second Lien Credit Agreement. The amendment provides the Company with the option to pay interest on its outstanding $300 million principal amount Second Lien Term Loan in kind, and also provides that the Company's obligation under the Second Lien Term Loan is convertible into common stock of the Company, on the same conversion terms as the New Senior Secured Notes. Also in connection with the closing of the Exchange Offers, the Company's subsidiary, Sears Roebuck Acceptance Corp. ("SRAC"), consummated a private exchange with certain third parties of approximately $100 million in principal amount of senior unsecured notes issued by SRAC maturing between 2027 and 2043 and bearing interest at rates between 6.50% and 7.50% per annum, pursuant to which SRAC issued a like principal amount of new unsecured notes (the "SRAC Exchange Notes"). The SRAC Exchange Notes mature in March 2028 and bear interest at a rate of 7.0% per annum, and provide the Company with the option to pay such interest in kind at an interest rate of 12.0% per annum. The SRAC Exchange Notes are also guaranteed by the same subsidiaries of the Company that guarantee the New Senior Secured Notes.

On March 21, 2018, we obtained a $125 million FILO term loan (the "FILO Loan") from JPP, LLC and JPP II, LLC, entities affiliated with ESL, and Benefit Street 2018 LLC, an entity affiliated with Thomas J. Tisch, under our Amended Domestic Credit Agreement. The Company received approximately $122 million in net proceeds from the FILO Loan, which proceeds were using to reduce outstanding borrowings under our revolving credit facility. The FILO Loan has a maturity date of July 20, 2020, which is the same maturity date as the Company's revolving credit facility commitments, and does not amortize.

In addition to pursuing several transactions to adjust our capital structure in order to enhance our liquidity and financial position, the Company is also taking incremental actions to further streamline operations to drive profitability, including cost reductions of $200 million on an annualized basis in 2018 unrelated to store closures.

In addition to the actions taken above, the Company has other resources available to support its operations. Our domestic credit facility permits us up to $2.0 billion of second lien loan capacity (of which $1.1 billion was utilized at February 3, 2018) outside the credit agreement, all depending on the applicable and available borrowing base as defined in our applicable debt agreements, as well as our ability to secure commitments from lenders. We also have the ability to obtain longer-term secured financing maturing outside of the domestic credit facility maturity date which would not be subject to borrowing base limitations (see Note 3 of Notes to Consolidated Financial Statements). Other options available to us, which we will evaluate and execute as appropriate, include refinancing

existing debt, borrowing against facilities in place with availability and additional real estate loans against unencumbered properties, which we have successfully executed in the past.

We also continue to explore ways to unlock value across a range of assets, including entering into or renegotiating commercial arrangements, and exploring ways to maximize the value of our Home Services, Innovel and Sears Auto Centers businesses, as well as our Kenmore and DieHard brands, through partnerships, sales or other means of externalization that could expand distribution of our brands and service offerings to realize significant growth. We expect to continue to right-size, redeploy and highlight the value of our assets, including monetizing our real estate portfolio and exploring potential asset sales, in our transition from an asset intensive, historically "store-only" based retailer to a more asset light, integrated membership-focused company.

We expect to continue to face a challenging competitive environment. While we continue to focus on our overall profitability, including managing expenses, we reported a loss in 2017, and were required to fund cash used in operating activities with cash from investing and financing activities. If we continue to experience operating losses, and we are not able to generate additional liquidity through the actions described below or through some combination of other actions, including real estate or other asset sales, while not expected, then our liquidity needs may exceed availability under our Amended Domestic Credit Agreement, our second lien line of credit loan facility and our other existing facilities, and we might need to secure additional sources of funds, which may or may not be available to us. A failure to secure such additional funds could cause us to be in default under the Amended Domestic Credit Agreement. Moreover, if the borrowing base (as calculated pursuant to our outstanding second lien debt) falls below the principal amount of such second lien debt plus the principal amount of any other indebtedness for borrowed money that is secured by liens on the collateral for such debt on the last day of any two consecutive quarters, it could trigger an obligation to repurchase our New Senior Secured Notes in an amount equal to such deficiency. As of February 3, 2018, we are in a deferral period of the collateral coverage test and the calculation restarts in the second quarter of 2018 (such that no collateral coverage event can occur until the end of the third quarter of 2018). Additionally, a failure to generate additional liquidity could negatively impact our access to inventory or services that are important to the operation of our business.

We believe the following actions, some of which we expect, subject to our governance processes, to include related party participation and funding, are probable of occurring and will be sufficient to satisfy our liquidity needs for the next twelve months from the issuance of the financial statements:

- Sales of the properties securing the $200 million Secured Loan to fund the repayment of such Secured Loan;
- Additional borrowings under the Mezzanine Loan Agreement and the Term Loan Facility;
- Renegotiation of certain commercial arrangements;
- Monetization of the Kenmore brand;
- Extension of maturities beyond March 2019 of Line of Credit Loans under the Second Lien Credit Agreement, the 2016 Secured Loan Facility, the Incremental Secured Loan Facility, and the LC Facility and the Term Loan under the Amended Domestic Credit Agreement;
- Additional borrowings secured by real estate assets or borrowings under the short-term basket; and
- Further restructurings to help manage expenses and improve profitability.

The PPPFA contains certain limitations on our ability to sell assets, which could impact our ability to complete asset sale transactions or our ability to use proceeds from those transactions to fund our operations. Therefore, the analysis of liquidity needs includes consideration of the applicable restrictions under the PPPFA. We expect that the actions outlined above will further enhance our liquidity and financial flexibility and we expect that these actions will be executed in alignment with the anticipated timing of our liquidity needs.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. The estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. We evaluate our estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made when facts and circumstances dictate. As future events and their effects cannot be determined

with absolute certainty, actual results may differ from the estimates used in preparing the accompanying consolidated financial statements. Significant estimates and assumptions are required as part of determining inventory and accounts receivable valuation, estimating depreciation, amortization and recoverability of long-lived assets, establishing self-insurance, warranty, legal and other reserves, performing goodwill and intangible impairment analyses, and in establishing valuation allowances on deferred income tax assets and reserves for tax examination exposures, and calculating retirement benefits.

Cash and Cash Equivalents

Cash equivalents include all highly liquid investments with original maturities of three months or less at the date of purchase. The Company classifies cash balances that are legally restricted pursuant to contractual arrangements as restricted cash. The restricted cash balance relates to amounts deposited into an escrow for the benefit of our pension plans. We also include deposits in-transit from banks for payments related to third-party credit card and debit card transactions within cash equivalents. The deposits in-transit balances included within cash equivalents were $65 million and $87 million at February 3, 2018 and January 28, 2017, respectively.

We classify outstanding checks in excess of funds on deposit within other current liabilities and reduce cash and cash equivalents when these checks clear the bank on which they were drawn. Outstanding checks in excess of funds on deposit included in other current liabilities were $74 million and $29 million at February 3, 2018 and January 28, 2017, respectively.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Consolidated Balance Sheets that sum to the total of the same such amounts shown in the Consolidated Statements of Cash Flows at February 3, 2018 and January 28, 2017, respectively.

millions	February 3, 2018	January 28, 2017
Cash and equivalents	$ 113	$ 196
Cash posted as collateral	4	3
Credit card deposits in transit	65	87
Total cash and cash equivalents	182	286
Restricted cash	154	—
Total cash balances	$ 336	$ 286

Allowance for Doubtful Accounts

We provide an allowance for doubtful accounts based on both historical experience and a specific identification basis. Allowances for doubtful accounts on accounts receivable balances were $35 million and $37 million at February 3, 2018 and January 28, 2017, respectively. Our accounts receivable balance on our Consolidated Balance Sheet is presented net of our allowance for doubtful accounts and is comprised of various vendor-related and customer-related accounts receivable, including receivables related to our pharmacy operations.

Merchandise Inventories

Merchandise inventories are valued at the lower of cost or market. For Kmart and Sears Domestic, cost is primarily determined using the retail inventory method ("RIM"). Kmart merchandise inventories are valued under the RIM using primarily a first-in, first-out ("FIFO") cost flow assumption. Sears Domestic merchandise inventories are valued under the RIM using primarily a last-in, first-out ("LIFO") cost flow assumption.

Inherent in the RIM calculation are certain significant management judgments and estimates including, among others, merchandise markons, markups, markdowns and shrinkage, which significantly impact the ending inventory valuation at cost, as well as resulting gross margins. The methodologies utilized by us in our application of the RIM are consistent for all periods presented. Such methodologies include the development of the cost-to-retail ratios, the groupings of homogenous classes of merchandise, the development of shrinkage and obsolescence reserves, the accounting for price changes and the computations inherent in the LIFO adjustment (where applicable).

Management believes that the RIM provides an inventory valuation that reasonably approximates cost and results in carrying inventory at the lower of cost or market.

Approximately 58% of consolidated merchandise inventories are valued using LIFO. To estimate the effects of inflation on inventories, we utilize external price indices determined by an outside source, the Bureau of Labor Statistics. If the FIFO method of inventory valuation had been used instead of the LIFO method, merchandise inventories would have been $31 million higher at February 3, 2018 and $33 million higher at January 28, 2017. During 2017 and 2016, a reduction in inventory quantities resulted in a liquidation of applicable LIFO inventory quantities carried at lower costs in prior years. This LIFO liquidation resulted in a decrease in cost of sales of approximately $6 million and $12 million in 2017 and 2016, respectively.

Vendor Rebates and Allowances

We receive rebates and allowances from certain vendors through a variety of programs and arrangements intended to offset our costs of promoting and selling certain vendor products. These vendor payments are recognized and recorded as a reduction to the cost of merchandise inventories when earned and, thereafter, as a reduction of cost of sales, buying and occupancy as the merchandise is sold. Upfront consideration received from vendors linked to purchases or other commitments is initially deferred and amortized ratably to cost of sales, buying and occupancy over the life of the contract or as performance of the activities specified by the vendor to earn the fee is completed.

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation. Additions and substantial improvements are capitalized and include expenditures that materially extend the useful lives of existing facilities and equipment. Maintenance and repairs that do not materially improve or extend the lives of the respective assets are expensed as incurred.

Depreciation expense, which includes depreciation on assets under capital leases, is recorded over the estimated useful lives of the respective assets using the straight-line method for financial statement purposes, and accelerated methods for tax purposes. The range of lives are generally 20 to 50 years for buildings, 3 to 10 years for furniture, fixtures and equipment, and 3 to 5 years for computer systems and computer equipment. Leasehold improvements are depreciated over the shorter of the associated lease term or the estimated useful life of the asset. Depreciation expense included within depreciation and amortization expense reported in the Consolidated Statements of Operations was $328 million, $370 million and $415 million for the years ended February 3, 2018, January 28, 2017 and January 30, 2016, respectively.

Primarily as a result of store closing actions, certain property and equipment are considered held for sale. The value of assets held for sale was $70 million and $96 million at February 3, 2018 and January 28, 2017, respectively. These assets were included in prepaid expenses and other current assets in the Consolidated Balance Sheets at February 3, 2018 and January 28, 2017 at the lower of their historical net book value or their estimated fair value, less estimated costs to sell. We expect to sell the properties within a year and we continually remarket them. The majority of assets held for sale are held within the Sears Domestic segment.

Impairment of Long-Lived Assets and Costs Associated with Exit Activities

In accordance with accounting standards governing the impairment or disposal of long-lived assets, the carrying value of long-lived assets, including property and equipment, is evaluated whenever events or changes in circumstances indicate that a potential impairment has occurred relative to a given asset or assets. Factors that could result in an impairment review include, but are not limited to, a current period cash flow loss combined with a history of cash flow losses, current cash flows that may be insufficient to recover the investment in the property over the remaining useful life, or a projection that demonstrates continuing losses associated with the use of a long-lived asset, significant changes in the manner of use of the asset or significant changes in business strategies. An impairment loss is recognized when the estimated undiscounted cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset (if any) are less than the carrying value of the asset. When an impairment loss is recognized, the carrying amount of the asset is reduced to its estimated fair value as determined based on quoted market prices or through the use of other valuation techniques. See Note 13 for further information regarding long-lived asset impairment charges recorded.

We account for costs associated with location closings in accordance with accounting standards pertaining to accounting for costs associated with exit or disposal activities. As such, we record a liability for costs associated with location closings, which includes employee severance and other liquidation fees when management makes the decision to exit a location. We record a liability for future lease costs (net of estimated sublease income) when we cease to use the location.

Goodwill, Trade Names and Related Impairments

Trade names acquired as part of the Merger account for the majority of our intangible assets recognized in the Consolidated Balance Sheet. The majority of these trade name assets, such as Sears and Kenmore, are expected to generate cash flows indefinitely, do not have estimable or finite useful lives and, therefore, are accounted for as indefinite-lived assets not subject to amortization. Certain intangible assets, including favorable lease rights, have estimable, finite useful lives, which are used as the basis for their amortization. The estimated useful lives of such assets are determined using a number of factors, including the demand for the asset, competition and the level of expenditure required to maintain the cash flows associated with the asset.

Our goodwill results from the Merger. We perform an annual goodwill impairment test at the last day of our November accounting period each year and assess the need to update the tests between annual tests if events or circumstances occur that would more likely than not reduce the fair value of the reporting unit or an indefinite-lived intangible asset below its carrying amount. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others: a significant decline in our expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; and the testing for recoverability of a significant asset group within the reporting unit. Any adverse change in these factors could have a significant impact on the recoverability of these assets and could have a material impact on our consolidated financial statements.

Goodwill Impairment Assessments

Our goodwill balance relates to our Home Services business. The goodwill impairment test involves a two-step process. The first step is a comparison of the reporting unit's fair value to its carrying value. We estimate fair value using the best information available, using a discounted cash flow model, commonly referred to as the income approach. The income approach uses the reporting unit's projection of estimated operating results and cash flows that is discounted using a weighted-average cost of capital that reflects current market conditions appropriate for the reporting unit. The projection uses management's best estimates of economic and market conditions over the projected period, including growth rates in sales, costs, estimates of future expected changes in operating margins and cash expenditures. Other significant estimates and assumptions include terminal value growth rates, future estimates of capital expenditures and changes in future working capital requirements. We were unable to use a market approach due to there being no market comparables.

If the carrying value of the reporting unit is higher than its fair value, there is an indication that impairment may exist and the second step must be performed to measure the amount of impairment loss, if any. The amount of impairment is determined by comparing the implied fair value of reporting unit goodwill to the carrying value of the goodwill in the same manner as if the reporting unit was being acquired in a business combination. See Note 12 for further information.

Intangible Asset Impairment Assessments

We consider the income approach when testing intangible assets with indefinite lives for impairment on an annual basis. We utilize the income approach, specifically the relief from royalty method, for analyzing our indefinite-lived assets. This method is based on the assumption that, in lieu of ownership, a firm would be willing to pay a royalty in order to exploit the related benefits of this asset class. The relief from royalty method involves two steps: (1) estimation of reasonable royalty rates for the assets; and (2) the application of these royalty rates to a net sales stream and discounting the resulting cash flows to determine a value. We multiplied the selected royalty rate by the forecasted net sales stream to calculate the cost savings (relief from royalty payment) associated with the assets.

The cash flows are then discounted to present value by the selected discount rate and compared to the carrying value of the assets.

In our quarterly reports on Form 10-Q filed during 2017, the Company disclosed that if its results continued to decline it could result in revisions in management's estimates of the fair value of the Company's trade names and may result in impairment charges. As a result of recently announced store closures and the further decline in revenue experienced in the fourth quarter at Sears Domestic, our analysis indicated that the fair value of the Sears trade name was less than its carrying value. Accordingly, we recorded impairment related to the Sears trade name during 2017 of $72 million, which reduced the carrying value to $359 million at February 3, 2018. We also recorded impairment charges of $381 million and $180 million in 2016 and 2015, respectively. See Note 12 for further information.

Fair Value of Financial Instruments

We determine the fair value of financial instruments in accordance with standards pertaining to fair value measurements. Such standards define fair value and establish a framework for measuring fair value in GAAP. Under fair value measurement accounting standards, fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. We report the fair value of financial assets and liabilities based on the fair value hierarchy prescribed by accounting standards for fair value measurements, which prioritizes the inputs to valuation techniques used to measure fair value into three levels.

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of temporary cash investments and accounts receivable. We place our cash and cash equivalents in investment-grade, short-term instruments with high quality financial institutions and, by policy, limit the amount of credit exposure in any one financial instrument.

Self-insurance Reserves

We are self-insured for certain costs related to workers' compensation, asbestos, environmental, automobile, warranty, product and general liability claims. We obtain third-party insurance coverage to limit our exposure to certain of these self-insured risks. A portion of these self-insured risks is managed through a wholly-owned insurance subsidiary. Our liability reflected in the Consolidated Balance Sheet, classified within other liabilities (current and long-term), represents an estimate of the ultimate cost of claims incurred at the balance sheet date. In estimating this liability, we utilize loss development factors based on Company-specific data to project the future development of incurred losses. Loss estimates are adjusted based upon actual claims settlements and reported claims. The liabilities for self-insured risks are discounted to their net present values using an interest rate which is based upon the expected duration of the liabilities. Expected payments as of February 3, 2018 were as follows:

millions	
2018	$ 148
2019	100
2020	74
2021	54
2022	42
Later years	311
Total undiscounted obligation	729
Less—discount	(83)
Net obligation	$ 646

Loss Contingencies

Under accounting standards, loss contingency provisions are recorded for probable losses at management's best estimate of a loss, or when a best estimate cannot be made, the minimum amount in the estimated range is

recorded. These estimates are often initially developed substantially earlier than the ultimate loss is known, and the estimates are refined each accounting period, as additional information is known.

Revenue Recognition

Revenues include sales of merchandise, services and extended service contracts, net commissions earned from leased departments in retail stores, delivery and handling revenues related to merchandise sold, and fees earned from co-branded credit card programs. We recognize revenues from retail operations at the later of the point of sale or the delivery of goods to the customer. Direct to customer revenues are recognized when the merchandise is delivered to the customer. Revenues from product installation and repair services are recognized at the time the services are provided. Revenues from the sale of service contracts and the related direct acquisition costs are deferred and amortized over the lives of the associated contracts, while the associated service costs are expensed as incurred.

We earn revenues through arrangements with third-party financial institutions that manage and directly extend credit relative to our co-branded credit card programs. The third-party financial institutions pay us for generating new accounts and sales activity on co-branded cards, as well as for selling other financial products to cardholders. We recognize these revenues in the period earned, which is when our related performance obligations have been met. We sell gift cards to customers at our retail stores and through our direct to customer operations. The gift cards generally do not have expiration dates. Revenues from gift cards are recognized when (i) the gift card is redeemed by the customer, or (ii) the likelihood of the gift card being redeemed by the customer is remote (gift card breakage) based on historical redemption patterns and we determine that we do not have a legal obligation to remit the value of the unredeemed gift cards to the relevant jurisdictions.

Revenues from merchandise sales and services are reported net of estimated returns and allowances and exclude sales taxes. The reserve for returns and allowances is calculated as a percentage of sales based on historical return percentages. Estimated returns are recorded as a reduction of sales and cost of sales. We defer the recognition of layaway sales and profit until the period in which the customer takes possession of the merchandise.

Cost of Sales, Buying and Occupancy

Cost of sales, buying and occupancy are comprised principally of the costs of merchandise, buying, warehousing and distribution (including receiving and store delivery costs), retail store occupancy costs, product repair, and home service and installation costs, customer shipping and handling costs, vendor allowances, markdowns and physical inventory losses.

The Company has a Shop Your Way program in which customers earn points on purchases which may be redeemed to pay for future purchases. The expense for customer points earned is recognized as customers earn them and recorded in cost of sales.

During 2016 and 2015, respectively, the Company received $33 million and $146 million related to one-time credits from vendors associated with prior supply arrangements, which have been reflected as credits within cost of sales, buying and occupancy in the Consolidated Statements of Operations.

Selling and Administrative Expenses

Selling and administrative expenses are comprised principally of payroll and benefits costs for retail and corporate employees, occupancy costs of corporate facilities, advertising, pre-opening costs and other administrative expenses.

Pre-Opening Costs

Pre-opening and start-up activity costs are expensed in the period in which they occur.

Advertising Costs

Advertising costs are expensed as incurred, generally the first time the advertising occurs, and amounted to $415 million, $684 million and $850 million for 2017, 2016 and 2015, respectively. These costs are included within selling and administrative expenses in the Consolidated Statements of Operations.

Income Taxes

We provide deferred income tax assets and liabilities based on the estimated future tax effects of differences between the financial and tax basis of assets and liabilities based on currently enacted tax laws in effect for the year in which the differences are expected to reverse. The tax balances and income tax expense recognized by us are based on management's interpretation of the tax laws of multiple jurisdictions. Income tax expense also reflects our best estimates and assumptions regarding, among other things, the level of future taxable income, tax planning, and any valuation allowance. Future changes in tax laws, changes in projected levels of taxable income, tax planning, and adoption and implementation of new accounting standards could impact the effective tax rate and tax balances recorded by us. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and results of recent operations. In projecting future taxable income, we begin with historical results adjusted for the results of discontinued operations and changes in accounting policies and incorporate assumptions including the amount of future state, federal and foreign pre-tax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. In evaluating the objective evidence that historical results provide, we consider cumulative operating income (loss) over the past three years. These assumptions require significant judgment about the forecasts of future taxable income.

Income tax expense or benefit from continuing operations is generally determined without regard to other categories of earnings, such as discontinued operations and other comprehensive income ("OCI"). An exception is provided in the authoritative accounting guidance when there is income from categories other than continuing operations and a loss from continuing operations in the current year. In this case, the tax benefit allocated to continuing operations is the amount by which the loss from continuing operations reduces the tax expense recorded with respect to the other categories of earnings, even when a valuation allowance has been established against the deferred tax assets. In instances where a valuation allowance is established against current year losses, income from other sources, including gain from pension and other postretirement benefits recorded as a component of OCI or the creation of a deferred tax liability through additional paid-in capital for the book to tax difference for the original issue discount relating to the $625 million 8% senior unsecured notes due 2019, is considered when determining whether sufficient future taxable income exists to realize the deferred tax assets.

Stock-based Compensation

We account for stock-based compensation arrangements in accordance with accounting standards pertaining to share-based payment transactions, which requires us to both recognize as expense the fair value of all stock-based compensation awards (which includes stock options, although there were no options outstanding in 2017) and to classify excess tax benefits associated with share-based compensation deductions as cash from financing activities rather than cash from operating activities. We recognize compensation expense as awards vest on a straight-line basis over the requisite service period of the award.

Earnings Per Common Share

Basic earnings per common share is calculated by dividing net income attributable to Holdings' shareholders by the weighted average number of common shares outstanding for each period. Diluted earnings per common share also includes the dilutive effect of potential common shares, exercise of stock options, warrants and the effect of restricted stock when dilutive.

New Accounting Pronouncements

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the Financial Accounting Standards Board ("FASB") issued an accounting standards update which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. This update is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The amendments in this update should be applied either in the period of adoption or retrospectively to each period (or periods) in which the

effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. We are currently evaluating the effect the update will have on our consolidated financial statements.

Compensation - Retirement Benefits

In March 2017, the FASB issued an accounting standards update which requires an employer to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. It also requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The amendments in the update must be applied retrospectively. We are currently evaluating the effect the update will have on our consolidated financial statements.

Goodwill

In January 2017, the FASB issued an accounting standards update which simplifies the test for goodwill impairment. To address concerns over the cost and complexity of the two-step goodwill impairment test, the amendments in this update remove the second step of the test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. This update is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company adopted the update in the fourth quarter of 2017. The adoption of the new standard did not have an impact on our consolidated financial statements.

Business Combinations

In January 2017, the FASB issued an accounting standards update which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of businesses. The amendments in this update provide a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If the screen is not met, the amendments in this update require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. This update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The amendments in the update must be applied prospectively. We are currently evaluating the effect the updates will have on our consolidated financial statements.

Statement of Cash Flows

In November 2016, the FASB issued accounting standards updates which address diversity in practice in the classification and presentation of changes in restricted cash in the statement of cash flows. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash. Therefore, restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. These updates are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The amendments in the updates must be applied using a retrospective transition method to each period presented. The Company adopted the update in the first quarter of 2017. The adoption of the new standard impacted the presentation of the Condensed Consolidated Statements of Cash Flows.

Consolidation - Interests held through related parties that are under common control

In October 2016, the FASB issued an accounting standards update to amend the accounting standards on how a reporting entity that is the single decision maker of a variable interest entity ("VIE") should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The primary beneficiary of a VIE is the reporting entity that has a controlling financial interest in a VIE and, therefore, consolidates the VIE. A reporting entity has an indirect interest in a VIE if it has a direct interest in a related party that, in turn, has a direct interest in the VIE. Under the amendments, a single decision maker is not required to consider indirect interests held through related parties that are under common control with the single decision maker to be the equivalent of direct interests in their entirety. Instead, a single decision maker is required to include those interests on a proportionate basis consistent with indirect interests held through other related parties. The Company adopted the update in the first quarter of 2017. The adoption of the new standard did not have an impact on the Company's consolidated financial position, results of operations or cash flows.

Income Taxes - Intra-entity transfers of assets other than inventory

In October 2016, the FASB issued an accounting standards update to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Current accounting standards prohibit the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. In addition, interpretations of this guidance have developed in practice for transfers of certain intangible and tangible assets. This prohibition on recognition is an exception to the principle of comprehensive recognition of current and deferred income taxes in accounting standards. To more faithfully represent the economics of intra-entity asset transfers, the amendments in this update require that entities recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments in this update do not change accounting standards for the pre-tax effects of an intra-entity asset transfer under accounting standards applicable to consolidation, or for an intra-entity transfer of inventory. The update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted as of the beginning of an annual reporting period. The amendments in this update should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We are currently evaluating the effect the update will have on our consolidated financial statements.

Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued accounting standards updates which address diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows, including: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. These updates are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The amendments in the update must be applied using a retrospective transition method to each period presented. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. We are currently evaluating the effect the update will have on our consolidated financial statements.

Leases

In February 2016, the FASB issued an accounting standards update which replaces the current lease accounting standard. The update will require, among other items, lessees to recognize a right-of-use asset and a lease liability for most leases. Extensive quantitative and qualitative disclosures, including significant judgments made by management, will be required to provide greater insight into the extent of revenue and expense recognized and expected to be recognized from existing contracts. The update is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The new standard must be

adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. We are currently evaluating the effect the update will have on our consolidated financial statements, and expect the update will have a material impact on our consolidated financial statements.

Fair Value Measurements

In May 2015, the FASB issued an accounting standards update which requires certain investments measured at net asset value to be removed from the fair value hierarchy categorization and presented as a single reconciling line item between the fair value of the pension plans assets and the amounts reported in the fair value hierarchy table. The Company adopted the update in fiscal 2016. The adoption of the new standard did not have an impact on the Company's consolidated financial position, results of operations, or cash flows.

Presentation of Financial Statements - Going Concern

In August 2014, the FASB issued an accounting standards update which requires management to assess whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the financial statements are issued. If substantial doubt exists, additional disclosures are required. This update was effective for the Company's annual period ended January 28, 2017. The Company's assessment of our ability to continue as a going concern is further discussed in the "Uses and Sources of Liquidity" paragraph above. The adoption of the new standard did not have a material impact on the Company's consolidated financial position, results of operations, cash flows or disclosures.

Revenue from Contracts with Customers

In May 2014, the FASB issued an accounting standards update which replaces the current revenue recognition standards. Subsequently, the FASB has also issued accounting standards updates which clarify the guidance. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard was initially released as effective for fiscal years beginning after December 15, 2016; however, the FASB has decided to defer the effective date of this accounting standard update for one year. Early adoption of the update is permitted, but not before the original date for fiscal years beginning after December 15, 2016. The update may be applied retrospectively for each period presented or as a cumulative-effect adjustment at the date of adoption.

The Company has completed its evaluation of the standard and will apply the update retrospectively for each period presented, beginning in the first quarter of 2018. Based on our assessment, we determined the adoption will impact the accounting for our Shop Your Way program, revenues from gift cards and merchandise returns. The expense for Shop Your Way points is currently recognized as customers earn them and recorded in cost of sales. The new guidance will require the Company to allocate the transaction price to products and points on a relative standalone selling price basis, deferring the portion of revenue allocated to the points and recognizing a contract liability for unredeemed points. The change in the accounting for the Shop Your Way program will reduce revenue by approximately 2.7% and 2.6% in 2017 and 2016, respectively, but will have no impact to gross margin. The new guidance will also change the timing of recognition of the unredeemed portion of our gift cards, which is currently recognized using the remote method. The new guidance will require application of the proportional method. The Company currently reports revenues from merchandise sales net of estimated returns. The new guidance will require the Company to record both an asset and a liability for anticipated customer returns. These changes will not have a material impact on the Company's consolidated financial position, results of operations, or cash flows, with the exception of the Shop Your Way program described above.

NOTE 2—SEARS CANADA

At both February 3, 2018 and January 28, 2017, the Company was the beneficial holder of approximately 12 million, or 12%, of the common shares of Sears Canada. Sears Canada filed for court protection and in July 2017 trading of its common shares was suspended. Accordingly, we recognized other-than-temporary impairment of $12

million within interest and investment loss in our Consolidated Statements of Operations during 2017. Our equity method investment in Sears Canada was $17 million at January 28, 2017, and was included within other assets in the Consolidated Balance Sheets. The fair value of our equity method investment in Sears Canada was determined based on quoted market prices for its common stock. Our equity method investment in Sears Canada was valued using Level 1 measurements as defined in Note 5.

NOTE 3—BORROWINGS

Total borrowings outstanding at February 3, 2018 and January 28, 2017 were $4.1 billion and $4.2 billion, respectively. At February 3, 2018, total short-term borrowings were $915 million, consisting of secured borrowings, line of credit loans and incremental loans. At January 28, 2017, we had no short-term borrowings outstanding. The weighted-average annual interest rate paid on short-term borrowings was 8.0% in 2017 and 5.4% in 2016.

Long-term debt was as follows:

ISSUE	February 3, 2018	January 28, 2017
millions		
SEARS ROEBUCK ACCEPTANCE CORP.		
6.50% to 7.50% Notes, due 2027 to 2043	$ 284	$ 327
Term Loan (Credit Facility), $1.0B due 2019	391	963
2016 Term Loan (Credit Facility), $750M due 2020	559	726
Second Lien Term Loan (Credit Facility), $300M due 2020	294	292
SEARS HOLDINGS CORP.		
8% Secured Loan Facility, due 2018	251	494
6.625% Senior Secured Notes, due 2018	303	303
8% Senior Unsecured Notes, due 2019	483	428
8% Secured Loan Facility, due 2020	374	485
Term Loan Facility (Credit Facility), $300M due 2020	206	—
CAPITALIZED LEASE OBLIGATIONS	72	145
Total long-term borrowings	3,217	4,163
Current maturities	(968)	(590)
Long-term debt and capitalized lease obligations	$ 2,249	$ 3,573
Weighted-average annual interest rate on long-term debt	7.6%	7.2%

The fair value of long-term debt, excluding capitalized lease obligations, was $2.8 billion at February 3, 2018 and $4.0 billion at January 28, 2017. The fair value of our debt was estimated based on quoted market prices for the same or similar issues or on current rates offered to us for debt of the same remaining maturities. Our long-term debt instruments are valued using Level 2 measurements as defined in Note 5.

At February 3, 2018, long-term debt maturities for the next five years and thereafter were as follows:

millions	
2018	$ 979
2019	637
2020	1,471
2021	3
2022	3
Thereafter	312
Total maturities	3,405
Unamortized debt discount	(152)
Unamortized debt issuance costs	(36)
Long-term debt, net of discount & debt issuance costs	$ 3,217

Interest

Interest expense for years 2017, 2016 and 2015 was as follows:

millions	**2017**	**2016**	**2015**
COMPONENTS OF INTEREST EXPENSE			
Interest expense [(1)]	$ 377	$ 288	$ 223
Amortization of debt issuance costs	58	31	25
Accretion of debt discount	66	50	35
Accretion of self-insurance obligations at net present value	19	16	19
Accretion of lease obligations at net present value	19	19	21
Interest expense	$ 539	$ 404	$ 323

[(1)] Includes paid-in-kind interest of $1 million for 2017.

Unsecured Commercial Paper

We borrow through the commercial paper markets. At both February 3, 2018 and January 28, 2017, we had no commercial paper borrowings outstanding.

Secured Short-Term Loan

On September 15, 2014, the Company, through Sears, Sears Development Co. and Kmart Corporation ("Short-Term Borrowers"), entities wholly-owned and controlled, directly or indirectly by the Company, entered into a $400 million secured short-term loan (the "Short-Term Loan'") with JPP II, LLC and JPP, LLC (collectively, the "Lenders"), entities affiliated with ESL. Proceeds of the Short-Term Loan were used for general corporate purposes.

The Short-Term Loan was originally scheduled to mature on December 31, 2014, and was subsequently amended and extended. We repaid the Short-Term Loan during 2015, resulting in no balance outstanding at February 3, 2018 or January 28, 2017.

Letter of Credit Facility

On December 28, 2016, the Company, through Sears Roebuck Acceptance Corp. ("SRAC") and Kmart Corporation (together with SRAC, the "Borrowers"), entities wholly-owned and controlled, directly or indirectly by the Company, entered into the Letter of Credit and Reimbursement Agreement (the "LC Facility") providing for a $500 million secured standby letter of credit facility (of which $271 million was committed at February 3, 2018) from the Lenders, with Citibank, N.A., serving as administrative agent and issuing bank (the "Issuing Bank").

In August 2017, the Company executed amendments to the LC Facility. The amendments, among other things, extended the maturity to December 28, 2018, eliminated the unused portion of the facility and released the real estate collateral that secured the original LC Facility. The amended LC Facility also permits the Lenders to syndicate all or a portion of their commitments under the facility to other lenders, of which $138 million has been syndicated to unaffiliated third party lenders as of February 3, 2018.

The amended LC Facility is guaranteed by the same subsidiaries of the Company that guarantee the obligations under the Amended Domestic Credit Agreement, as defined below. The amended LC Facility is secured by substantially the same collateral as the Amended Domestic Credit Agreement. The amended LC Facility contains a borrowing base calculation, pursuant to which the borrowers are required to cash collateralize the LC Facility if the aggregate obligations under the Amended Domestic Credit Agreement, amended LC Facility and certain other cash management and similar obligations exceed the Modified Borrowing Base, as defined in the amended LC Facility, as of the end of any calendar month.

To secure their obligation to participate in letters of credit issued under the LC Facility, the lenders under the LC Facility are required to maintain cash collateral on deposit with the Issuing Bank in an amount equal to 102% of the commitments under the LC Facility (the "Lender Deposit"). The Borrowers paid the Lenders an upfront fee equal to 1.00% of the aggregate amount of the Lender Deposit. In addition, the Borrowers are required to pay a commitment fee on the average daily amount of the Lender Deposit (as such amount may be increased or decreased from time to time) equal to the Eurodollar Rate (as defined under the Amended Domestic Credit Facility) plus 11.0%, as well as certain other fees. In the event of reductions of the commitments under the LC Facility or a termination of the LC Facility prior to the six month anniversary of the effective date of the amendments, under certain circumstances the Borrowers will be required to pay an early reduction/termination fee equal to the commitment fee that would have accrued with respect to the reduced or terminated commitments from the date of reduction or termination until the six month anniversary.

The LC Facility includes certain representations and warranties, affirmative and negative covenants and other undertakings, which are subject to important qualifications and limitations set forth in the LC Facility. The LC Facility also contains certain events of default, including (subject to certain materiality thresholds and grace periods) payment default, failure to comply with covenants, material inaccuracy of representation or warranty, and bankruptcy or insolvency proceedings. If an event of default occurs, the Lenders may terminate all or any portion of the commitments under the LC Facility, require the Borrowers to cash collateralize the LC Facility and/or exercise any rights they might have under any of the related facility documents (including against the collateral), subject to certain limitations. At February 3, 2018 and January 28, 2017, respectively, we had $271 million and $200 million of letters of credit outstanding under the LC Facility.

Secured Loan and Mezzanine Loan

On March 14, 2018, the Company, through SRC O.P. LLC, SRC Facilities LLC and SRC Real Estate (TX), LLC (collectively, the "Secured Loan Borrowers"), entities wholly-owned and controlled indirectly by the Company, entered into a Credit Agreement (the "Credit Agreement") with the lenders party thereto (collectively, the "Secured Lenders"). The Credit Agreement provides for a $200 million term loan (the "Secured Loan") that is secured by the Secured Loan Borrowers' interests in 138 real properties that were released from a ring-fence arrangement with the PBGC. The Secured Loan matures on December 14, 2018. The Company used the proceeds of the Secured Loan to make a contribution to the Company's pension plans and for general corporate purposes.

Also on March 14, 2018, the Company, through SRC Sparrow 2 LLC (the "Mezzanine Loan Borrower"), an entity wholly-owned and controlled indirectly by the Company, entered into a Mezzanine Loan Agreement (the "Mezzanine Loan Agreement") with the Lenders, entities affiliated with ESL. The Mezzanine Loan Agreement provides for a $240 million term loan (the "Mezzanine Loan") that is secured by a pledge of the equity interests in SRC O.P. LLC, the direct parent company of the entities that own the 138 real properties that secure the obligations of the Secured Loan Borrowers under the Credit Agreement. The Mezzanine Loan matures on July 20, 2020. The Company used the proceeds of the Mezzanine Loan to make a contribution to the Company’s pension plans.

The Mezzanine Loan Agreement contains an uncommitted accordion feature pursuant to which the Mezzanine Loan Borrower may incur additional loans ("Additional Mezzanine Loans") of not more than $200 million in aggregate, subject to certain conditions set forth in the Mezzanine Loan Agreement and the Credit Agreement,

including that the Additional Mezzanine Loans shall not exceed an amount equal to the principal amount of the Secured Loan repaid by the Secured Loan Borrowers.

The Secured Loan and the Mezzanine Loan are both guaranteed by the Company and certain of its subsidiaries. The Secured Loan bears interest at an annual interest rate of LIBOR plus 6.5% for the first three months the Secured Loan is outstanding, LIBOR plus 7.5% for the fourth through the sixth month the Secured Loan is outstanding and LIBOR plus 8.5% for the seventh through the ninth month the Secured Loan is outstanding. Accrued interest is payable monthly during the term of the Secured Loan. The Mezzanine Loan bears interest at an annual interest rate of LIBOR plus 11.0%, with accrued interest payable monthly during the term of the Mezzanine Loan. The Company paid an upfront commitment fee of 1.5% of the principal amount of the Secured Loan, and paid an arrangement fee. The Mezzanine Borrowers paid an upfront commitment fee equal to 1.8% of the principal amount of the Mezzanine Loan.

To the extent permitted under other debt of the Company or its affiliates, the Secured Loan and the Mezzanine Loan may be prepaid at any time in whole or in part, without penalty or premium. The Secured Loan Borrowers are required to apply the net proceeds of the sale of any real property collateral for the Secured Loan to repay the Secured Loan. Following repayment in full of the Secured Loan, the Mezzanine Loan Borrower is required to apply the net proceeds of the sale of any real property that served as collateral for the Secured Loan to repay the Mezzanine Loan.

The Credit Agreement and the Mezzanine Loan Agreement include certain representations and warranties, indemnities and covenants, including with respect to the condition and maintenance of the real property collateral. The Credit Agreement and the Mezzanine Loan Agreement have certain events of default, including (subject to certain materiality thresholds and grace periods) payment default, failure to comply with covenants, material inaccuracy of representation or warranty, and bankruptcy or insolvency proceedings. If there is an event of default, the Secured Loan Lenders and the Mezzanine Lenders may declare all or any portion of the outstanding indebtedness to be immediately due and payable, exercise any rights they might have (including against the collateral), and require the Secured Loan Borrowers or Mezzanine Loan Borrower to pay a default interest rate of 2.0% in excess of the base interest rate.

Term Loan Facility

On January 4, 2018, the Borrowers entered into a Term Loan Credit Agreement (the “Term Loan Credit Agreement”) providing for a secured term loan facility (the “Term Loan Facility”) from the Lenders, entities affiliated with ESL. The Term Loan Facility is guaranteed by the Company and certain of its subsidiaries that guarantee the Company’s other material debt or own material intellectual property. The Term Loan Facility is secured by substantially all of the unencumbered intellectual property of the Company and its subsidiaries, other than intellectual property relating to the Kenmore and DieHard brands, as well as by certain real property interests, in each case subject to certain exclusions. On January 4, 2018, $100 million was borrowed under the Term Loan Facility. The Term Loan Facility also contains an uncommitted incremental loan feature that, subject to the satisfaction of certain conditions, including the consent of the Agent, would permit up to an additional $200 million to be borrowed from other counterparties and secured by the same collateral as the initial loan under the Term Loan Facility. An additional $30 million was borrowed under the Term Loan Facility on January 19, 2018.

On January 29, 2018, the Company entered into an Amendment to the Term Loan Credit Agreement (the "Amendment"), pursuant to which an additional $20 million was borrowed from the Lenders and a further $60 million was borrowed from certain unaffiliated lenders, bringing the total amount borrowed under the Term Loan Facility to $210 million at February 3, 2018. The Amendment, among other changes, separates the loans under the Term Loan Facility into two tranches. On February 26, 2018, the Company entered into another amendment to the Term Loan Credit Agreement pursuant to which an additional $40 million was borrowed from the Lenders.

The loans under the Term Loan Facility bear interest at a weighted average annual interest rate of LIBOR plus 12.5%, which during the first year must be paid in kind by capitalizing interest. The loans under the Term Loan Facility mature on July 20, 2020. The Company used the proceeds of the Term Loan Facility for general corporate purposes. No upfront or arrangement fees were paid in connection with the Term Loan Facility. The loans under the Term Loan Facility are prepayable without premium or penalty.

The Term Loan Facility includes certain representations and warranties, indemnities and covenants, including with respect to the condition and maintenance of the intellectual property and real property collateral. The Term Loan Facility has certain events of default, including (subject to certain materiality thresholds and grace periods) payment default, failure to comply with covenants, material inaccuracy of representation or warranty, and bankruptcy or insolvency proceedings. If there is an event of default, the Lenders may declare all or any portion of the outstanding indebtedness to be immediately due and payable, exercise any rights they might have (including against the collateral), and require the Borrowers to pay a default interest rate.

At February 3, 2018, the carrying value of the Term Loan Facility, net of the remaining debt issuance costs, was $206 million. The carrying value includes paid-in-kind interest of $1 million at February 3, 2018.

2017 Secured Loan Facility

On January 3, 2017, the Company, through Sears, Kmart Stores of Illinois LLC, Kmart of Washington LLC and Kmart Corporation (collectively, "2017 Secured Loan Borrowers"), entities wholly-owned and controlled, directly or indirectly by the Company, obtained a $500 million real estate loan facility (the "2017 Secured Loan Facility") from the Lenders, entities affiliated with ESL. On January 3, 2017, $321 million was funded under the 2017 Secured Loan Facility, and an additional $179 million was drawn by the Company prior to January 28, 2017. The 2017 Secured Loan Facility matures on July 20, 2020. The Company used the proceeds of the 2017 Secured Loan Facility for general corporate purposes.

During October 2017, the Company, through the 2017 Secured Loan Borrowers and SHC Desert Springs, LLC, Innovel Solutions, Inc., Sears Holdings Management Corporation, Maxserv, Inc., Troy Coolidge No. 13, LLC, Sears Development Co. and Big Beaver of Florida Development, LLC (collectively, "Incremental Loan Borrowers"), entities wholly-owned and controlled, directly or indirectly by the Company, entered into amended and restated loan agreements (the "Incremental Loans") with the Lenders, entities affiliated with ESL. The Company borrowed $200 million pursuant to the Incremental Loans, and used the proceeds for general corporate purposes. The Incremental Loans mature on April 23, 2018, except that if the maturity date of the 2016 Secured Loan Facility (as defined below) is extended to July 6, 2018, then the Incremental Loans will mature on July 6, 2018.

On March 8, 2018, the Company, through the 2017 Secured Loan Borrowers and SHC Desert Springs, LLC, Innovel Solutions, Inc., Sears Holdings Management Corporation, Maxserv, Inc. and Troy Coolidge No. 13, LLC (collectively, "Second Incremental Loan Borrowers"), entities wholly-owned and controlled, directly or indirectly by the Company, entered into a second amendment to the Incremental Loans (the "Second Amendment") with the Lenders, entities affiliated with ESL. Pursuant to the Second Amendment, the Second Incremental Loan Borrowers borrowed an additional $100 million from the Lenders (the "Second Incremental Loan") and used the proceeds for general corporate purposes. The Second Incremental Loan matures on July 20, 2020.

Initially, the 2017 Secured Loan Facility had an annual base interest rate of 8%, with accrued interest payable monthly during the term of the 2017 Secured Loan Facility. Pursuant to the Second Amendment, the interest rate increased to LIBOR plus 9%. The Borrowers paid an upfront commitment fee equal to 1.0% of the full principal amount of the 2017 Secured Loan Facility and paid a funding fee equal to 1.0% of the amounts drawn under the 2017 Secured Loan Facility at the time such amounts were drawn. The Incremental Loans have an annual interest rate of 11%, with accrued interest payable monthly. The Second Incremental Loan has an annual interest rate of LIBOR plus 9%, with accrued interest payable monthly. No upfront or funding fees were paid in connection with the Incremental Loans or Second Incremental Loan.

The 2017 Secured Loan Facility, Incremental Loans and Second Incremental Loan are guaranteed by the Company and certain of its subsidiaries, and were secured by a first priority lien on 69 real properties owned by the 2017 Secured Loan Borrowers and Incremental Loan Borrowers and guarantors at inception of the 2017 Secured Loan Facility, and an additional 7 real properties owned by the Incremental Loan Borrowers at inception of the Incremental Loans. In certain circumstances, the Lenders and the 2017 Secured Loan Borrowers, Incremental Loan Borrowers and Second Incremental Loan Borrowers may elect to substitute one or more properties as collateral. To the extent permitted under other debt of the Company or its affiliates, the 2017 Secured Loan Facility may be prepaid at any time in whole or in part, without penalty or premium. The 2017 Secured Loan Borrowers are required to apply the net proceeds of the sale of any real property collateral for the 2017 Secured Loan Facility to repay the

loan. The Company used proceeds of $116 million to pay interest and a portion of the 2017 Secured Loan Facility and $55 million to pay interest and a portion of the Incremental Loans during 2017.

The 2017 Secured Loan Facility, Incremental Loans and Second Incremental Loan include certain representations and warranties, indemnities and covenants, including with respect to the condition and maintenance of the real property collateral. The 2017 Secured Loan Facility, Incremental Loans and Second Incremental Loan have certain events of default, including (subject to certain materiality thresholds and grace periods) payment default, failure to comply with covenants, material inaccuracy of representation or warranty, and bankruptcy or insolvency proceedings. If there is an event of default, the Lenders may declare all or any portion of the outstanding indebtedness to be immediately due and payable, exercise any rights they might have under any of the 2017 Secured Loan Facility, Incremental Loan or Second Incremental Loan documents (including against the collateral), and require the 2017 Secured Loan Borrowers, Incremental Loan Borrowers or Second Incremental Loan Borrowers to pay a default interest rate equal to the greater of (i) 2.5% in excess of the base interest rate and (ii) the prime rate plus 1%.

The carrying value of the 2017 Secured Loan Facility, net of the remaining debt issuance costs, was $374 million and $485 million at February 3, 2018 and January 28, 2017, respectively. The carrying value of the Incremental Loans, net of the remaining debt issuance costs, was $144 million at February 3, 2018. The Incremental Loans are included within short-term borrowings in the Consolidated Balance Sheets for all periods presented.

2016 Secured Loan Facility

On April 8, 2016, the Company, through Sears, Sears Development Co., Innovel, Big Beaver of Florida Development, LLC and Kmart Corporation (collectively, "2016 Secured Loan Borrowers"), entities wholly-owned and controlled, directly or indirectly by the Company, obtained a $500 million real estate loan facility (the "2016 Secured Loan Facility") from JPP, LLC, JPP II, LLC, and Cascade Investment, LLC (collectively, the "2016 Secured Loan Lenders"). JPP, LLC and JPP II, LLC are entities affiliated with ESL. The first $250 million of the 2016 Secured Loan Facility was funded on April 8, 2016 and the remaining $250 million was funded on April 22, 2016. The funds were used to reduce outstanding borrowings under the Company's asset-based revolving credit facility and for general corporate purposes. The 2016 Secured Loan Facility had an original maturity date of July 7, 2017. In May 2017, the Company reached an agreement to extend the maturity of $400 million of the 2016 Secured Loan Facility to January 2018, with options to further extend the maturity of the loan for up to an additional six months, to July 6, 2018, subject to the satisfaction of certain conditions and the payment of certain fees. On November 21, 2017, the Company notified the 2016 Secured Loan Lenders of its exercise of the first such option to extend the maturity to April 6, 2018, subject to the payment of an extension fee on January 8, 2018, which fee was paid on January 8, 2018. On February 5, 2018, the Company notified the 2016 Secured Loan Lenders of its exercise of the second such option to extend the maturity to July 6, 2018, subject to the payment of an extension fee on April 6, 2018. The 2016 Secured Loan Facility is included within current portion of long-term debt in the Consolidated Balance Sheets for all periods presented. The carrying value of the 2016 Secured Loan Facility, net of the remaining debt issuance costs, was $251 million and $494 million at February 3, 2018 and January 28, 2017, respectively.

The 2016 Secured Loan Facility has an annual base interest rate of 8%, with accrued interest payable monthly during the term of the 2016 Secured Loan Facility. The 2016 Secured Loan Borrowers paid an upfront commitment fee equal to 1.0% of the full principal amount of the 2016 Secured Loan Facility and paid a funding fee equal to 1.0% at the time such amounts were drawn. In connection with the May 2017 maturity extension, the Company paid a one-time extension fee equal to $8 million to the extending lenders.

The 2016 Secured Loan Facility is guaranteed by the Company and was originally secured by a first priority lien on 21 real properties owned by the 2016 Secured Loan Borrowers. The 2016 Secured Loan Facility includes customary representations and warranties, indemnities and covenants, including with respect to the condition and maintenance of the real property collateral.

The 2016 Secured Loan Facility has customary events of default, including (subject to certain materiality thresholds and grace periods) payment default, failure to comply with covenants, material inaccuracy of representation or warranty, and bankruptcy or insolvency proceedings. If there is an event of default, the 2016 Secured Loan Lenders may declare all or any portion of the outstanding indebtedness to be immediately due and payable, exercise any rights they might have under any of the 2016 Secured Loan Facility documents (including

against the collateral), and require the 2016 Secured Loan Borrowers to pay a default interest rate equal to the greater of (i) 2.5% in excess of the base interest rate and (ii) the prime rate plus 1%. The 2016 Secured Loan Facility may be prepaid at any time in whole or in part, without penalty or premium and $250 million of proceeds from real estate transactions was used to pay interest and a portion of the loan during the 2017.

Domestic Credit Agreement

The Borrowers and Holdings are party to an amended and restated credit agreement (the "Amended Domestic Credit Agreement") with a syndicate of lenders. Pursuant to the Amended Domestic Credit Agreement, the Borrowers have borrowed two senior secured term loan facilities having original principal amounts of $1.0 billion and $750 million (the "Term Loan" and "2016 Term Loan," respectively). The Amended Domestic Credit Agreement currently provides for a $1.5 billion asset-based revolving credit facility (the "Revolving Facility") with a $1.0 billion letter of credit sub-facility, which matures on July 20, 2020. The Term Loan had an original maturity of June 30, 2018 and the 2016 Term Loan matures on July 20, 2020. In December 2017, the Company entered into an agreement to extend the maturity of the Term Loan to January 20, 2019, with the option to further extend the maturity to July 20, 2019, subject to certain conditions, including payment of an extension fee equal to 2.0% of the principal amount of the Term Loan outstanding at the time of such extension. The Amended Domestic Credit Agreement includes an accordion feature that allows the Borrowers to use, subject to borrowing base requirements, existing collateral for the facility to obtain up to $1.0 billion of additional borrowing capacity, of which $750 million was utilized for the 2016 Term Loan (described below). The Amended Domestic Credit Agreement also includes a FILO tranche feature that allows up to an additional $500 million of borrowing capacity and allows Holdings and its subsidiaries to undertake short-term borrowings outside the facility up to $1.0 billion. In February 2018, the Borrowers entered into an amendment that increased the size of the general debt basket to $1.25 billion.

Revolving advances under the Amended Domestic Credit Agreement bear interest at a rate equal to, at the election of the Borrowers, either the London Interbank Offered Rate ("LIBOR") or a base rate, in either case plus an applicable margin dependent on Holdings' consolidated leverage ratio (as measured under the Amended Domestic Credit Agreement). The margin with respect to borrowings ranges from 3.50% to 4.00% for LIBOR loans and from 2.50% to 3.00% for base rate loans. The Amended Domestic Credit Agreement also provides for the payment of fees with respect to issued and undrawn letters of credit at a rate equal to the margin applicable to LIBOR loans and a commitment fee with respect to unused amounts of the Revolving Facility at a rate equal to 0.625% per annum.

The Revolving Facility is in place as a funding source for general corporate purposes and is secured by a first lien on substantially all of our domestic inventory and credit card and pharmacy receivables, and is subject to a borrowing base formula to determine availability. The Revolving Facility is guaranteed by all domestic subsidiaries of Holdings that own inventory or credit card or pharmacy receivables. The Revolving Facility also permits aggregate second lien indebtedness of up to $2.0 billion, of which $1.1 billion in second lien notes were outstanding at February 3, 2018, resulting in $896 million of permitted second lien indebtedness, subject to limitations contained in our other outstanding indebtedness. If, through asset sales or other means, the value of the above eligible assets is not sufficient to support borrowings of up to the full amount of the commitments under this facility, we will not have full access to the facility, but rather could have access to a lesser amount determined by the borrowing base. Such a decline in the value of eligible assets also could result in our inability to borrow up to the full amount of second lien indebtedness permitted by the domestic credit facility, but rather we could be limited to borrowing a lesser amount determined by the borrowing base as calculated pursuant to the terms of such indenture.

The Term Loan bears interest at a rate equal to, at the election of the Borrowers, either LIBOR (subject to a 1.00% LIBOR floor) or a base rate, plus an applicable margin for LIBOR loans of 4.50% and for base rate loans of 3.50%. Currently, the Borrowers are required to repay the Term Loan in quarterly installments of $2.5 million, with the remainder of the Term Loan maturing January 20, 2019, subject to the right of the Borrowers to extend the maturity to July 20, 2019. Additionally, the Borrowers are required to make certain mandatory repayments of the Term Loan from excess cash flow (as defined in the Amended Domestic Credit Agreement). The Term Loan may be prepaid in whole or part without penalty. The Term Loan is secured by the same collateral as the Revolving Facility on a pari passu basis with the Revolving Facility, and is guaranteed by the same subsidiaries of the Company that guarantee the Revolving Facility. At February 3, 2018 and January 28, 2017, respectively, we had borrowings of $400 million and $970 million under the Term Loan, and carrying value, net of the remaining discount and debt issuance costs, of $391 million and $963 million. During the fourth quarter, the Company paid down the Term Loan

by $325 million, reducing the outstanding balance, and bringing our total Term Loan repayment during 2017 to approximately $570 million. The Company made additional repayments in 2018 of $97 million through the date of this report. A portion of the proceeds received from the Craftsman Sale were also used to reduce outstanding borrowings under the Term Loan.

Amounts borrowed pursuant to the 2016 Term Loan bear interest at a rate equal to LIBOR plus 750 basis points, subject to a 1.00% LIBOR floor. The Company received approximately $722 million in net proceeds from the 2016 Term Loan, which proceeds were used to reduce outstanding borrowings under its asset-based revolving credit facility. The 2016 Term Loan has a maturity date of July 20, 2020, which is the same maturity date as the Company's revolving credit facility commitments, and does not amortize. The 2016 Term Loan is subject to a prepayment premium of 2% of the aggregate principal amount of the 2016 Term Loan prepaid on or prior to April 8, 2017 and 1% of the aggregate principal amount of the 2016 Term Loan prepaid after April 8, 2017 and on or prior to April 8, 2018. The obligations under the Amended Domestic Credit Agreement, including the 2016 Term Loan, are secured by a first lien on substantially all of the domestic inventory and credit card and pharmacy receivables of the Company and its subsidiaries and aggregate advances under the Amended Domestic Credit Agreement are subject to a borrowing base formula. The carrying value of the 2016 Term Loan, net of the remaining discount and debt issuance costs, was $559 million and $726 million at February 3, 2018 and January 28, 2017, respectively. A portion of the proceeds received from the Craftsman Sale were used to reduce outstanding borrowings under the 2016 Term Loan.

The Amended Domestic Credit Agreement limits our ability to make restricted payments, including dividends and share repurchases, subject to specified exceptions that are available if, in each case, no event of default under the credit facility exists immediately before or after giving effect to the restricted payment. These include exceptions that require that projected availability under the credit facility, as defined, to be at least 15%, exceptions that may be subject to certain maximum amounts and an exception that requires that the restricted payment is funded from cash on hand and not from borrowings under the credit facility. Further, the Amended Domestic Credit Agreement includes customary covenants that restrict our ability to make dispositions, prepay debt and make investments, subject, in each case, to various exceptions. The Amended Domestic Credit Agreement also imposes various other requirements, which take effect if availability falls below designated thresholds, including a cash dominion requirement and a requirement that the fixed charge ratio at the last day of any quarter be not less than 1.0 to 1.0. As of February 3, 2018, our fixed charge ratio continues to be less than 1.0 to 1.0, and we are subject to these other requirements based on our availability. If availability under the domestic revolving credit facility were to fall below 10%, the Company would be required to test the fixed charge coverage ratio, and would not comply with the facility, and the lenders under the facility could demand immediate payment in full of all amounts outstanding and terminate their obligations under the facility. In addition, the domestic credit facility provides that in the event we make certain prepayments of indebtedness, for a period of one year thereafter we must maintain availability under the facility of at least 12.5%, and it prohibits certain other prepayments of indebtedness.

At February 3, 2018, we had $271 million of Revolving Facility borrowings, and at January 28, 2017, we had no borrowings outstanding under the Revolving Facility. We had $377 million and $464 million at February 3, 2018 and January 28, 2017, respectively, of letters of credit outstanding under the Revolving Facility. At February 3, 2018 and January 28, 2017, the amount available to borrow under the Revolving Facility was $69 million and $165 million, respectively, which reflects the effect of the springing fixed charge coverage ratio covenant and the borrowing base limitation. The majority of the letters of credit outstanding are used to provide collateral for our insurance programs.

Second Lien Credit Agreement

On September 1, 2016, the Company, SRAC, and Kmart Corporation (together with SRAC, the "ABL Borrowers") entered into a Second Lien Credit Agreement with the Lenders thereunder, entities affiliated with ESL, pursuant to which the ABL Borrowers borrowed $300 million under a term loan (the "Second Lien Term Loan"). The Company received net proceeds of $291 million, which were used for general corporate purposes.

The maturity date for the Second Lien Term Loan is July 20, 2020 and the Second Lien Term Loan will not amortize. The Second Lien Term Loan bears interest at a rate equal to, at the election of the ABL Borrowers, either LIBOR (subject to a 1.00% floor) or a specified prime rate ("Base Rate"), in either case plus an applicable margin. The margin with respect to the Second Lien Term Loan is 7.50% for LIBOR loans and 6.50% for Base Rate loans.

The Second Lien Credit Agreement was amended on July 7, 2017, providing an uncommitted line of credit facility under which subsidiaries of the Company may from time to time borrow line of credit loans ("Line of Credit Loans") with maturities less than 180 days, subject to applicable borrowing base limitations, in an aggregate principal amount not to exceed $500 million at any time outstanding. In February 2018, the Second Lien Credit Agreement was further amended to, among other things, increase the maximum aggregate principal amount of the Line of Credit Loans to $600 million, extend the maximum duration of the Line of Credit Loans to 270 days and increase the size of the general debt basket to $1.25 billion. During 2017, the Company received aggregate proceeds of $610 million from the issuance of Line of Credit Loans from various lenders, some of which are entities affiliated with ESL, Bruce R. Berkowitz, and Thomas J. Tisch. The Company made repayments of $110 million during 2017, some of which were to related parties. See Note 15 for further information. The proceeds were used for the repayment of indebtedness and general corporate purposes.

The Second Lien Credit Agreement was further amended on January 9, 2018. This amendment amended the borrowing base definition in the Second Lien Credit Agreement to increase the advance rate for inventory to 75% from 65% and also deferred the collateral coverage test for purposes of the mandatory repayment covenant in the Second Lien Credit Agreement such that no such mandatory repayment can be required until the end of the third quarter of 2018. In connection with the closing of the Exchange Offers, the Company also entered into an amendment to its Second Lien Credit Agreement. The amendment provides the Company with the option to pay interest on its outstanding $300 million principal amount Second Lien Term Loan in kind, and also provides that the Company's obligation under the term loan is convertible into common stock of the Company, on the same conversion terms as the New Senior Secured Notes.

Following consummation of the Exchange Offers, the Company's obligations under the Second Lien Credit Agreement are secured on a pari passu basis with the Company’s obligations under that certain Indenture, dated as of March 20, 2018, pursuant to which the Company issued its New Senior Secured Notes (defined below). The collateral includes inventory, receivables and other related assets of the Company and its subsidiaries which are obligated on the Second Lien Term Loan and the New Senior Secured Notes. The Second Lien Credit Agreement is guaranteed by all domestic subsidiaries of the Company that guarantee the Company’s obligations under its existing Revolving Facility.

The Second Lien Credit Agreement includes representations and warranties, covenants and other undertakings, and events of default that are substantially similar to those contained in the Amended Domestic Credit Agreement. The Second Lien Credit Agreement requires the ABL Borrowers to prepay amounts outstanding under the Amended Domestic Credit Agreement and/or the Second Lien Credit Agreement in order to avoid a Collateral Coverage Event (as defined below). The carrying value of the Second Lien Term Loan, net of the remaining debt issuance costs, was $294 million and $292 million at February 3, 2018 and January 28, 2017, respectively. The carrying value of the Line of Credit Loans was $500 million at February 3, 2018.

Old Senior Secured Notes and New Senior Secured Notes

In October 2010, we sold $1.0 billion aggregate principal amount of senior secured notes (the "Old Senior Secured Notes"), which bear interest at 6 5/8% per annum and mature on October 15, 2018. Concurrent with the closing of the sale of the Old Senior Secured Notes, the Company sold $250 million aggregate principal amount of Old Senior Secured Notes to the Company's domestic pension plan in a private placement, none of which remain in the domestic pension plan as a result of the Tender Offer discussed below. The Old Senior Secured Notes are guaranteed by certain subsidiaries of the Company and are secured by a security interest in certain assets consisting primarily of domestic inventory and receivables (the "Collateral"). The lien that secures the Old Senior Secured Notes is junior in priority to the liens on such assets that secure obligations under the Amended Domestic Credit Agreement, as well as certain other first priority lien obligations, and, following consummation of the Exchange Offers, obligations under the indenture relating to the New Senior Secured Notes. The Company used the net proceeds of this offering to repay borrowings outstanding under a previous domestic credit agreement on the settlement date and to fund the working capital requirements of our retail businesses, capital expenditures and for general corporate purposes. Prior to consummation of the Exchange Offers, the indenture under which the Old Senior Secured Notes (the "Old Senior Secured Notes Indenture") were issued contained restrictive covenants that, among other things, (1) limited the ability of the Company and certain of its domestic subsidiaries to create liens and enter into sale and leaseback transactions and (2) limited the ability of the Company to consolidate with or merge

into, or sell other than for cash or lease all or substantially all of its assets to, another person. The indenture also provided for certain events of default, which, if any were to occur, would permit or require the principal and accrued and unpaid interest on all the then outstanding Senior Secured Notes to be due and payable immediately. In connection with the consummation of the Exchange Offers, we entered into a supplemental indenture to the Old Senior Secured Notes Indenture that eliminated substantially all of the restrictive covenants and certain events of default in the Old Senior Secured Notes Indenture. The supplemental indenture, among other things, eliminated the obligation of the Company to offer to repurchase all outstanding Old Senior Secured Notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest, if the borrowing base (as calculated pursuant to the indenture) falls below the principal value of the Old Senior Secured Notes plus any other indebtedness for borrowed money that is secured by liens on the Collateral for two consecutive quarters or upon the occurrence of certain change of control triggering events. The Company may call the Old Senior Secured Notes at a premium based on the "Treasury Rate" as defined in the indenture, plus 50 basis points.

On August 3, 2015, the Company commenced a tender offer (the "Tender Offer") to purchase for cash up to $1.0 billion principal amount of its Old Senior Secured Notes, which expired on August 28, 2015. Approximately $936 million principal amount of the Old Senior Secured Notes were validly tendered and not validly withdrawn in the Tender Offer. Holders who validly tendered and did not validly withdraw Old Senior Secured Notes at or prior to the early tender date of August 14, 2015 received total consideration of $990 per $1,000 principal amount of Old Senior Secured Notes that were accepted for purchase, which included an early tender payment of $30 per $1,000 principal amount of Old Senior Secured Notes accepted for purchase, plus accrued and unpaid interest up to, but excluding, the settlement date. Holders who validly tendered and did not validly withdraw Old Senior Secured Notes after the early tender date but at or prior to the expiration date of August 28, 2015 received total consideration of $960 per $1,000 principal amount of Old Senior Secured Notes accepted for purchase, plus accrued and unpaid interest up to, but excluding, the settlement date.

We accounted for the Tender Offer in accordance with accounting standards applicable to extinguishment of liabilities and debt modifications and extinguishments. Accordingly, we de-recognized the net carrying amount of Old Senior Secured Notes of $929 million (comprised of the principal amount of $936 million, offset by unamortized debt issuance costs and discount of $7 million), and the reacquisition cost was $929 million.

On January 9, 2018, the Company and certain of its subsidiaries entered into a Fourth Supplemental Indenture (the "Supplemental Indenture") with Wilmington Trust, National Association, as successor trustee and collateral agent, amending the Old Senior Secured Notes Indenture. The Supplemental Indenture amended the borrowing base definition in the Old Senior Secured Notes Indenture to increase the advance rate for inventory to 75% from 65%. The Supplemental Indenture also defers the collateral coverage test for purposes of the repurchase offer covenant in the Indenture and restarts it with the second quarter of 2018 (such that no collateral coverage event can occur until the end of the third quarter of 2018).

The carrying value of Old Senior Secured Notes, net of the remaining discount and debt issuance costs, was $303 million and $303 million at February 3, 2018 and January 28, 2017, respectively. The carrying value of Old Senior Secured Notes is included within current portion of long-term debt in the Consolidated Balance Sheets at February 3, 2018.

In February 2018, the Company commenced the Exchange Offers pursuant to which it offered to issue in exchange for its outstanding Senior Secured Notes new 6 5/8% Senior Secured Notes Due 2019, of a like principal amount, convertible into common stock of the Company, with interest on such notes to be payable in kind at the Company's option. The Exchange Offers expired on March 15, 2018. Approximately $169.8 million principal amount of the Senior Secured Notes were validly tendered, accepted and canceled, including $20 million principal amount of Old Senior Secured Notes held by ESL, and the Company issued a like principal amount of New Senior Secured Notes. The New Senior Secured Notes are optionally convertible by the holders thereof into shares of the Company’s common stock at a conversion price of $5.00 per share of common stock, and are mandatorily convertible at the Company's option if the volume weighted average trading price of the common stock on the NASDAQ exceeds $10.00 for a prescribed period. The New Senior Unsecured Notes bear interest at a rate of 6.625% per annum and the Company will pay interest semi-annually on April 15 and October 15 of each year, which interest may, at the option of the Company, be paid in kind. The New Senior Secured Notes mature in October 2019.

The New Senior Secured Notes are guaranteed by certain subsidiaries of the Company and are secured by a security interest in the Collateral. The lien that secures the New Senior Secured Notes is junior in priority to the liens on such assets that secure obligations under the Amended Domestic Credit Agreement, as well as certain other first priority lien obligations, and senior to the lien on such assets that secure obligations under the Old Senior Secured Notes Indenture. The indenture under which the New Senior Secured Notes (the "New Senior Secured Notes Indenture") were issued contains restrictive covenants that, among other things, (1) limit the ability of the Company and certain of its domestic subsidiaries to create liens and enter into sale and leaseback transactions and (2) limit the ability of the Company to consolidate with or merge into, or sell other than for cash or lease all or substantially all of its assets to, another person. The New Senior Secured Notes Indenture also provides for certain events of default, which, if any were to occur, would permit or require the principal and accrued and unpaid interest on all the then outstanding New Senior Secured Notes to be due and payable immediately. The New Senior Secured Notes Indenture also requires the Company to offer to repurchase all outstanding New Senior Secured Notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest, if the borrowing base (as calculated pursuant to the indenture) falls below the principal value of the New Senior Secured Notes plus any other indebtedness for borrowed money that is secured by liens on the Collateral for two consecutive quarters or upon the occurrence of certain change of control triggering events.

Old Senior Unsecured Notes and New Senior Unsecured Notes

On October 20, 2014, the Company announced its Board of Directors had approved a rights offering allowing its stockholders to purchase up to $625 million in aggregate principal amount of 8% senior unsecured notes due 2019 and warrants to purchase shares of its common stock. The subscription rights were distributed to all stockholders of the Company as of October 30, 2014, the record date for this rights offering, and every stockholder had the right to participate on the same terms in accordance with its pro rata ownership of the Company's common stock, except that holders of the Company's restricted stock that was unvested as of the record date received cash awards in lieu of subscription rights. This rights offering closed on November 18, 2014 and was oversubscribed.

Accordingly, on November 21, 2014, the Company issued $625 million aggregate original principal amount of 8% senior unsecured notes due 2019 (the "Old Senior Unsecured Notes") and received proceeds of $625 million which were used for general corporate purposes. The Old Senior Unsecured Notes are the unsecured and unsubordinated obligations of the Company and rank equal in right of payment with the existing and future unsecured and unsubordinated indebtedness of the Company. The Old Senior Unsecured Notes bear interest at a rate of 8% per annum and the Company will pay interest semi-annually on June 15 and December 15 of each year. The Old Senior Unsecured Notes are not guaranteed.

We accounted for the Old Senior Unsecured Notes in accordance with accounting standards applicable to distinguishing liabilities from equity and debt with conversion and other options. Accordingly, we allocated the proceeds received for the Senior Unsecured Notes based on the relative fair values of the Old Senior Unsecured Notes and warrants, which resulted in a discount to the notes of approximately $278 million. The fair value of the Old Senior Unsecured Notes and warrants was estimated based on quoted market prices for the same issues using Level 1 measurements as defined in Note 5. The discount is being amortized over the life of the Old Senior Unsecured Notes using the effective interest method with an effective interest rate of 11.55%. Approximately $55 million and $44 million of the discount was amortized during 2017 and 2016, respectively. The remaining discount was approximately $140 million and $195 million at February 3, 2018 and January 28, 2017, respectively. The carrying value of the Old Senior Unsecured Notes net of the remaining discount and debt issuance costs was approximately $483 million and $428 million at February 3, 2018 and January 28, 2017, respectively.

In February 2018, the Company commenced the Exchange Offers, pursuant to which it offered to issue in exchange for its outstanding Senior Unsecured Notes new 8% Senior Unsecured Notes Due 2019, of a like principal amount, convertible into common stock of the Company, with interest on such notes to be payable in kind at the Company's option. The Exchange Offers expired on March 15, 2018. Approximately $214 million principal amount of the Old Senior Unsecured Notes were validly tendered, accepted and canceled, including $187.6 million principal amount of Old Senior Unsecured Notes by ESL, and the Company issued a like principal amount of New Senior Unsecured Notes. The New Senior Unsecured Notes are optionally convertible by the holders thereof into shares of the Company’s common stock at a conversion price of $8.33 per share of common stock, and are mandatorily

convertible at the Company's option if the volume weighted average trading price of the common stock on the NASDAQ exceeds $10.00 for a prescribed period.

The New Senior Unsecured Notes are the unsecured and unsubordinated obligations of the Company and rank equal in right of payment with the existing and future unsecured and unsubordinated indebtedness of the Company. The New Senior Unsecured Notes bear interest at a rate of 8% per annum and the Company will pay interest semi-annually on June 15 and December 15 of each year, which interest may, at the option of the Company, be paid in kind. The Senior Unsecured Notes are not guaranteed.

Cash Collateral

We post cash collateral for certain self-insurance programs. We continue to classify the cash collateral posted for self-insurance programs as cash and cash equivalents due to our ability to substitute letters of credit for the cash at any time at our discretion. At February 3, 2018 and January 28, 2017, $4 million and $3 million of cash, respectively, was posted as collateral for self-insurance programs.

Wholly-owned Insurance Subsidiary and Intercompany Securities

We have numerous types of insurable risks, including workers' compensation, product and general liability, automobile, warranty, asbestos and environmental claims and the extended service contracts we sell to our customers. Certain of the associated risks are managed through Holdings' wholly-owned insurance subsidiary, Sears Reinsurance Company Ltd. ("Sears Re"), a Bermuda Class 3 insurer.

In accordance with applicable insurance regulations, Sears Re holds marketable securities to support the insurance coverage it provides. Sears has utilized two securitization structures to issue specific securities in which Sears Re has invested its capital to fund its insurance obligations. In November 2003, Sears formed a Real Estate Mortgage Investment Conduit, or REMIC. The real estate associated with 138 properties was contributed to indirect wholly-owned subsidiaries of Sears, and then leased back to Sears. The contributed stores were mortgaged and the REMIC issued to wholly-owned subsidiaries of Sears (including Sears Re) $1.3 billion (par value) of securities (the "REMIC Securities") that were secured by the mortgages and collateral assignments of the store leases. Payments to the holders on the REMIC Securities were funded by the lease payments. In March 2018, in connection with the Credit Agreement and Mezzanine Loan Agreement described above, the REMIC was unwound and the REMIC Securities were extinguished.

In May 2006, a subsidiary of Holdings contributed the rights to use the Kenmore, Craftsman and DieHard trademarks in the U.S. and its possessions and territories to KCD IP, LLC, an indirect wholly-owned subsidiary of Holdings. KCD IP, LLC has licensed the use of the trademarks to subsidiaries of Holdings, including Sears and Kmart. Asset-backed securities with a par value of $1.8 billion (the "KCD Securities") were issued by KCD IP, LLC and subsequently purchased by Sears Re, the collateral for which includes the trademark rights and royalty income. Payments to the holders on the KCD Securities are funded by the royalty payments. In connection with the Craftsman Sale, KCD Securities with par value of $900 million were redeemed in March 2017.

The issuers of the REMIC Securities and KCD Securities and the owners of these real estate and trademark assets are bankruptcy remote, special purpose entities that are indirect wholly-owned subsidiaries of Holdings. Cash flows received from rental streams and licensing fee streams paid by Sears, Kmart, other affiliates and third parties, are used for the payment of fees and interest on these securities, through the extinguishment of the REMIC Securities in March 2018. Since the inception of the REMIC and KCD IP, LLC, the REMIC Securities and the KCD Securities have been entirely held by our wholly-owned consolidated subsidiaries, through the extinguishment of the REMIC Securities in March 2018. At February 3, 2018 and January 28, 2017, respectively, the net book value of the securitized trademark rights was approximately $0.7 billion and $1.0 billion. The net book value of the securitized real estate assets was approximately $0.5 billion and $0.6 billion at February 3, 2018 and January 28, 2017, respectively.

Trade Creditor Matters

We have ongoing discussions concerning our liquidity and financial position with the vendor community and third parties that offer various credit protection services to our vendors. The topics discussed have included such areas as pricing, payment terms and ongoing business arrangements. As of the date of this report, we have not experienced any significant disruption in our access to merchandise or our operations.

NOTE 4—FINANCIAL GUARANTEES

Financial Guarantees

We issue various types of guarantees in the normal course of business. We had the following guarantees outstanding at February 3, 2018:

millions	Bank Issued	SRAC Issued	Other	Total
Standby letters of credit	$ 647	$ 6	$ —	$ 653
Commercial letters of credit	—	31	—	31
Secondary lease obligations	—	—	164	164

The secondary lease obligations related to certain store leases that have been assigned and previously divested Sears businesses. The secondary lease obligations represent the maximum potential amount of future payments, including renewal option periods pursuant to the lease agreements. We remain secondarily liable if the primary obligor defaults.

NOTE 5—FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

We determine fair value of financial assets and liabilities based on the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs – unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information.

Level 2 inputs – inputs other than quoted market prices included in Level 1 that are observable, either directly or indirectly, for the asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted market prices that are observable for the asset or liability, such as interest rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk and default rates.

Level 3 inputs – unobservable inputs for the asset or liability.

Cash and cash equivalents, accounts receivable, merchandise payables, short-term borrowings and accrued liabilities are reflected in the Consolidated Balance Sheets at cost, which approximates fair value due to the short-term nature of these instruments. The fair value of our equity method investment in Sears Canada is disclosed in Note 2. The fair value of our long-term debt is disclosed in Note 3. The fair value of pension and other postretirement benefit plan assets is disclosed in Note 7.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

Assets and liabilities that are measured at fair value on a nonrecurring basis relate primarily to our tangible fixed assets, goodwill and other intangible assets, which are remeasured when the derived fair value is below carrying value on our Consolidated Balance Sheets. For these assets, we do not periodically adjust carrying value to fair value except in the event of impairment. When we determine that impairment has occurred, we measure the impairment and adjust the carrying value as discussed in Note 1. With the exception of the indefinite-lived intangible asset impairments and fixed asset impairments described in Note 12 and Note 13, respectively, we had no significant remeasurements of such assets or liabilities to fair value during 2017 and 2016.

All of the fair value remeasurements were based on significant unobservable inputs (Level 3). Fixed asset fair values were derived based on discussions with real estate brokers, review of comparable properties, if available, and internal expertise related to the current marketplace conditions. Inputs for the goodwill and intangible asset analyses included discounted cash flow analyses, comparable marketplace fair value data, as well as management's assumptions in valuing significant tangible and intangible assets, as described in Note 1, Summary of Significant Accounting Policies.

NOTE 6—INTEREST AND INVESTMENT LOSS

The following table sets forth the components of interest and investment loss as reported in our Consolidated Statements of Operations:

millions	2017	2016	2015
Interest income on cash and cash equivalents	$ 2	$ 1	$ 1
Other investment loss	(14)	(27)	(63)
Total	$ (12)	$ (26)	$ (62)

Interest Income on Cash and Cash Equivalents

We recorded interest income of $2 million, $1 million and $1 million in 2017, 2016 and 2015, respectively, primarily related to interest earned on cash and cash equivalents. These cash and cash equivalents consist of highly liquid investments with original maturities of three months or less at the date of purchase. Our invested cash may include, from time to time, investments in, but not limited to, commercial paper, federal, state and municipal government securities, floating-rate notes, repurchase agreements and money market funds. All invested cash amounts are readily available to us.

Other Investment Loss

Other investment loss primarily includes income or loss generated by (and sales of investments in) certain real estate joint ventures and other equity investments in which we do not have a controlling interest. During 2017, 2016 and 2015, respectively, the investment loss from equity investments included a loss of $17 million, $35 million and $59 million.

NOTE 7—BENEFIT PLANS

We sponsor a number of pension and postretirement benefit plans. We account for our retirement programs in accordance with employers' accounting for defined benefit pension and other postretirement plans under Generally Accepted Accounting Principles ("GAAP"). GAAP requires that amounts recognized in financial statements be determined using an actuarial basis. As a result, our pension benefit programs are based on a number of statistical and judgmental assumptions that attempt to anticipate future events and are used in calculating the expense and liability related to our plans each year at January 31. These assumptions include, but are not limited to, discount rates used to value liabilities, assumed rates of return on plan assets, actuarial assumptions relating to retirement age and participant turnover, and mortality rates. The actuarial assumptions we use may differ significantly from actual results. These differences may result in a material impact to the amount of net periodic benefit cost to be recorded in our consolidated financial statements in the future.

Expenses for retirement and savings-related benefit plans were as follows:

millions	2017	2016	2015
Pension plans	$ 657	$ 289	$ 230
Postretirement benefits	—	28	(2)
Total	$ 657	$ 317	$ 228

Retirement Savings Plans

Holdings sponsors retirement savings plans for employees meeting service eligibility requirements. The Company does not match employee contributions.

Other Benefit Plans

Certain full-time and part-time employees of Kmart and Sears are eligible to participate in noncontributory defined benefit plans after meeting age and service requirements. Effective January 31, 1996 and January 1, 2006, respectively, the Kmart tax-qualified defined benefit pension plan and the Sears domestic pension plan were frozen and associates no longer earn additional benefits under the plan. The Kmart tax-qualified defined benefit pension plan was merged with and into the Sears domestic pension plan effective as of January 30, 2008. The merged plan was renamed as the Sears Holdings Pension Plan ("SHC Domestic plan") and Holdings accepted sponsorship of the SHC Domestic plan effective as of that date.

Pension benefits are based on length of service, compensation and, in certain plans, social security or other benefits. Funding for the various plans is determined using various actuarial cost methods.

In addition to providing pension benefits, Sears provides employees and retirees certain medical benefits. These benefits provide access to medical plans. Certain Sears retirees are also provided life insurance benefits. To the extent we share the cost of the retiree medical benefits with retirees, such cost sharing is based on years of service and year of retirement. Sears' postretirement benefit plans are not funded. We have the right to modify or terminate these plans. Effective December 31, 2014, the Company amended its retiree medical plan to eliminate Company subsidies to the plan.

Pension Plan Amendment

Effective December 1, 2016, the Sears Holdings Pension Plan was amended to change its plan year from a calendar year end to a November 30th year end, to spin off a new Sears Holdings Pension Plan 2 ("Plan 2") and to rename the Sears Holdings Pension Plan as Sears Holdings Pension Plan 1 ("Plan 1"). In conjunction with these amendments, the Company requested that the Internal Revenue Service ("IRS") approve the foregoing change in plan year and to approve a change in actuarial funding method in connection with the spin-off and change in plan year. The Company has received IRS approval of both changes.

Pension Plan Settlements

In May 2017, the Company executed an irrevocable agreement to purchase a group annuity contract from Metropolitan Life Insurance Company ("MLIC"), under which MLIC will pay future pension benefit payments to approximately 51,000 retirees from Plan 2. The agreement calls for a transfer of approximately $515 million of Plan 2's benefit obligations to MLIC. This action had an immaterial impact on the funded status of our total pension obligations, but reduced the size of the Company's combined pension plan, reduced future cost volatility, and reduced future plan administrative expenses. Due to the annuity purchase, we were required to remeasure our pension obligations. In connection with the remeasurement, we updated the effective discount rate assumption to 3.85% as of May 31, 2017. The annuity purchase resulted in a non-cash charge of $200 million for losses previously accumulated in other comprehensive income (loss), which were recognized through the statement of operations upon settlement during the 13 week period ending July 29, 2017.

In August 2017, the Company reached another agreement with MLIC to annuitize an additional $512 million of its pension liability, under which MLIC will pay future pension benefit payments to an additional approximately 20,000 retirees from Plan 2. This action had an immaterial impact on the funded status of our total pension obligations, but reduced the size of the Company's combined pension plan, reduced future cost volatility, and reduced future plan administrative expenses. Due to the annuity purchase, we were required to remeasure our pension obligations. In connection with the remeasurement, we updated the effective discount rate assumption to 3.75% as of August 31, 2017. This annuity purchase resulted in a non-cash charge of $203 million for losses previously accumulated in other comprehensive income (loss), which were recognized through the statement of operations immediately upon settlement during the 13 week period ending October 28, 2017.

Effective August 25, 2017, the Company amended Plan 2, primarily related to lump sum benefit eligibility, and began notifying certain former employees of the Company of its offer to pay those employees' pension benefit in lump sum. Former employees eligible for the voluntary lump sum payment option are generally those who are vested traditional formula participants of Plan 2 who terminated employment prior to January 1, 2017 and who have not yet started receiving monthly payments of their pension benefits. The Company offered the one-time voluntary lump sum window in an effort to reduce its long-term pension obligations and ongoing annual pension expense. This voluntary offer was made to approximately 20,000 eligible terminated vested participants representing approximately $300 million of the Company's total qualified pension plan liabilities. Eligible participants had until November 1, 2017 to make their election. The Company made payments of approximately $209 million to employees who made the election and funded the payments from existing assets of Plan 2. This lump sum offer resulted in a non-cash charge of $76 million for losses previously accumulated in other comprehensive income (loss), which were recognized through the statement of operations immediately upon settlement during the 14 week period ending February 3, 2018.

Pension Plans

millions	2017	2016
Change in projected benefit obligation:		
Beginning balance	$ 5,165	$ 5,265
Interest cost	180	227
Actuarial loss	227	108
Benefits paid	(316)	(435)
Settlements	(1,249)	—
Other	(4)	—
Balance at the measurement date	$ 4,003	$ 5,165
Change in assets at fair value:		
Beginning balance	$ 3,567	$ 3,189
Actual return on plan assets	231	499
Company contributions	295	314
Benefits paid	(316)	(435)
Settlements	(1,249)	—
Balance at the measurement date	$ 2,528	$ 3,567
Net amount recognized	$ (1,475)	$ (1,598)

The accumulated benefit obligation for the SHC Domestic plan was $4.0 billion at February 3, 2018 and $5.2 billion at January 28, 2017.

Postretirement Benefit Obligations

millions	2017	2016
Change in accumulated postretirement benefit obligation:		
Beginning balance	$ 168	$ 143
Interest cost	6	5
Plan participants' contributions	—	—
Benefits paid	(17)	(19)
Actuarial loss	1	9
Other	—	30
Balance at the measurement date	$ 158	$ 168
Change in plan assets at fair value:		
Beginning of year balance	$ —	$ —
Company contributions	17	19
Plan participants' contributions	—	—
Benefits paid	(17)	(19)
Balance at the measurement date	$ —	$ —
Funded status	$ (158)	$ (168)

The current portion of our liability for postretirement benefit obligations is $16 million, which we expect to pay during fiscal 2018.

Weighted-average assumptions used to determine plan obligations were as follows:

	2017	2016	2015
Pension benefits:			
Discount rate	3.75%	4.15%	4.50%
Postretirement benefits:			
Discount rate	3.60%	3.85%	4.00%

The decrease in the discount rate in 2017 resulted in an increase in the 2017 year-end pension obligation of approximately $229 million.

Net Periodic Benefit Cost

The components of net periodic benefit cost were as follows:

millions	2017	2016	2015
Pension benefits:			
Interest cost	$ 180	$ 227	$ 211
Expected return on plan assets	(190)	(202)	(249)
Settlements	479	—	—
Recognized net loss and other	188	264	268
Net periodic benefit cost	$ 657	$ 289	$ 230
Postretirement benefits:			
Interest cost	$ 6	$ 5	$ 5
Recognized net loss and other	(6)	23	(7)
Net periodic benefit cost	$ —	$ 28	$ (2)

Weighted-average assumptions used to determine net cost were as follows:

	2017	2016	2015
Pension benefits:			
Discount Rate[1]	4.15%	4.50%	3.70%
Return of plan assets	6.50%	6.50%	7.00%
Postretirement benefits:			
Discount Rate	3.85%	4.00%	3.30%

[1] In connection with the annuitizations noted above, we updated the effective discount rate assumption to 3.85% as of May 31, 2017 and to 3.75% as of August 31, 2017 for Plan 2.

For purposes of determining the periodic expense of our defined benefit plans, we use the fair value of plan assets as the market-related value. A one-percentage-point change in the assumed discount rate would have the following effects on the pension liability:

millions	1 percentage-point Increase	1 percentage-point Decrease
Effect on interest cost component	$ 20	$ (26)
Effect on pension benefit obligation	$ (384)	$ 460

Approximately $146 million of the unrecognized net losses in accumulated other comprehensive income are expected to be amortized as a component of net periodic benefit cost during 2018.

Investment Strategy

The Investment Committee, made up of select members of senior management, has delegated to a non-affiliated third party professional, as a limited-purpose named fiduciary, the authority to provide certain investment-related services with respect to the assets of Holdings' domestic pension plans. The plans' overall investment objective is to provide a long-term return that, along with Company contributions, is expected to meet future benefit payment requirements. A long-term horizon has been adopted in establishing investment policy such that the likelihood and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. The plans' investment policy requires investments to be diversified across individual securities, industries, market capitalization and valuation characteristics. In addition, various techniques are utilized to monitor, measure and manage risk.

Domestic plan assets were invested in the following classes of securities:

	Plan Assets at	
	February 3, 2018	January 28, 2017
Equity securities	36%	35%
Fixed income and other debt securities	63	63
Other	1	2
Total	100%	100%

The domestic plans' target allocation is determined by taking into consideration the amounts and timing of projected liabilities, our funding policies and expected returns on various asset classes. At February 3, 2018, the plans' target asset allocation was 35% equity and 65% fixed income. To develop the expected long-term rate of return on assets assumption, we considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

Future Cash Flows of Benefit Plans

Information regarding expected future cash flows for the SHC Domestic plan is as follows:

millions		
Pension benefits:		
Employer contributions:		
2018 (expected)	$	280
Expected benefit payments:		
2018	$	334
2019		308
2020		298
2021		291
2022		283
2023-2027		1,289
Postretirement benefits:		
Employer contributions:		
2018 (expected)	$	16
Expected employer contribution for benefit payments:		
2018	$	16
2019		17
2020		17
2021		16
2022		15
2023-2027		58

Domestic Pension Plans Funding

Contributions to our pension plans remain a significant use of our cash on an annual basis. While the Company's pension plan is frozen, and thus associates do not currently earn pension benefits, the Company has a legacy pension obligation for past service performed by Kmart and Sears associates. During 2017, we contributed $295 million to our domestic pension plans, including amounts contributed from the escrow created pursuant to the PPPFA. We estimate that our minimum pension funding obligations will be $280 million in 2018 (excluding the $20 million supplemental payment described below) and approximately $276 million in 2019. As discussed in Note 1, the Company agreed to grant the PBGC a lien on, and subsequently contribute to the Company's pension plans, the Craftsman Receivable. During the second quarter of 2017, we sold the Craftsman Receivable to a third-party purchaser, and deposited the proceeds into an escrow for the benefit of our pension plans. We subsequently contributed a portion of the proceeds received from the sale of the Craftsman Receivable to our pension plans, which contribution was credited against the Company's minimum pension funding obligations in 2017. Under our agreement with the PBGC, the remaining proceeds will also be contributed to our pension plans, and when so contributed, will be fully credited against the Company's minimum pension funding obligations in 2018 and 2019.

The Company also agreed to grant a lien to the PBGC on the 15-year income stream relating to new Stanley Black & Decker sales of Craftsman products, and agreed to contribute the payments from Stanley Black & Decker under such income stream to the Company's pension plans, with such payments to be credited against the Company's minimum pension funding obligations starting no later than five years from the closing date. The Company also agreed to grant the PBGC a lien on $100 million of real estate assets to secure the Company's minimum pension obligations through the end of 2019.

In November 2017, the Company announced an amendment to the PPPFA that allowed the Company to pursue the monetization of 138 of our properties that were subject to a ring-fence arrangement created under the PPPFA. In

March 2018, the Company closed on the Secured Loan and the Mezzanine Loan, which transactions released the properties from the ring-fence arrangement. The Company contributed approximately $282 million of the proceeds of such loans to our pension plans, and deposited $125 million into an escrow for the benefit of our pension plans. Under our agreement with the PBGC, the escrowed amount will also be contributed to our pension plans and, when so contributed, will be fully credited against the Company's minimum pension funding obligations in 2018 and 2019 described above. Following such transactions, the Company has been relieved of contributions to our pension plans for approximately two years (other than the contributions from escrow described above and a $20 million supplemental payment due in the second quarter of 2018). The ultimate amount of pension contributions could be affected by factors such as changes in applicable laws, as well as financial market and investment performance and demographic changes.

Fair Value of Pension Plan Assets

The following table presents our plan assets using the fair value hierarchy at February 3, 2018 and January 28, 2017:

	Investment Assets at Fair Value at February 3, 2018			
millions	**Total**	**Level 1**	**Level 2**	**Level 3**
Equity securities:				
U.S. companies	$ 727	$ 720	$ —	$ 7
International companies	164	164	—	—
U.S. registered investment companies	6	6	—	—
Fixed income securities:				
Corporate bonds and notes	1,423	—	1,423	—
Sears Holdings Corporation 2016 Term Loan	77	—	77	—
Mortgage-backed and asset-backed	9	—	6	3
Other	(3)	—	(3)	—
Total investment assets at fair value	$ 2,403	$ 890	$ 1,503	$ 10
Cash	4			
Accounts receivable	39			
Accounts payable	(28)			
Investments measured at NAV:				
Cash equivalents and short-term investments	110			
Net assets available for plan benefits	$ 2,528			

	Investment Assets at Fair Value at January 28, 2017			
millions	**Total**	**Level 1**	**Level 2**	**Level 3**
Equity securities:				
U.S. companies	$ 980	$ 978	$ —	$ 2
International companies	224	224	—	—
U.S. registered investment companies	3	3	—	—
Fixed income securities:				
Corporate bonds and notes	1,994	—	1,994	—
Sears Holdings Corporation 2016 Term Loan	100	—	100	—
Mortgage-backed and asset-backed	3	—	1	2
Other	1	—	1	—
Ventures and partnerships	1	—	—	1
Total investment assets at fair value	$ 3,306	$ 1,205	$ 2,096	$ 5
Cash	8			
Accounts receivable	65			
Accounts payable	(69)			
Investments measured at NAV:				
Cash equivalents and short-term investments	257			
Net assets available for plan benefits	$ 3,567			

Equity securities, which include common and preferred stocks, are actively traded and valued at the closing price reported in the active market in which the security is traded and are assigned to Level 1.

Fixed income securities are assigned to Level 2 as they are primarily valued by institutional bid evaluation, which determines the estimated price a dealer would pay for a security and which is developed using proprietary models established by the pricing vendors for this purpose.

Certain mortgage-backed and other asset-backed debt securities are assigned to Level 3 based on the relatively low position in the preferred hierarchy of the pricing source. Valuation of the Plan's non-public limited partnerships requires significant judgment by the general partners due to the absence of quoted market value, inherent lack of liquidity, and the long-term nature of the assets, and may result in fair value measurements that are not indicative of ultimate realizable value. Our Level 3 assets, including activity related to our Level 3 assets, are immaterial.

Collective short-term investment funds are stated at net asset value (NAV) as determined by the investment managers and have not been classified in the fair value hierarchy. Investment managers value the underlying investments of the funds at amortized cost, which approximates fair value.

NOTE 8—EARNINGS PER SHARE

The following table sets forth the components used to calculate basic and diluted loss per share attributable to Holdings' shareholders. Warrants, restricted stock awards and restricted stock units, totaling 2 thousand shares in 2016 and 5 million shares in 2015 were not included in the computation of diluted loss per share attributable to Holdings' shareholders because the effect of their inclusion would have been anti-dilutive.

millions, except earnings per share	2017	2016	2015
Basic weighted average shares	107.4	106.9	106.6
Dilutive effect of restricted stock awards, restricted stock units and warrants	—	—	—
Diluted weighted average shares	107.4	106.9	106.6
Net loss attributable to Holdings' shareholders	$ (383)	$ (2,221)	$ (1,129)
Loss per share attributable to Holdings' shareholders:			
Basic	$ (3.57)	$ (20.78)	$ (10.59)
Diluted	$ (3.57)	$ (20.78)	$ (10.59)

NOTE 9—EQUITY

Stock-based Compensation

We account for stock-based compensation using the fair value method in accordance with accounting standards regarding share-based payment transactions. We do not currently have an employee stock option plan and at February 3, 2018, there are no outstanding options. Compensation expense related to stock-based compensation arrangements was immaterial during 2017, 2016 and 2015.

We granted restricted stock awards and restricted stock units to certain associates. These restricted stock awards and restricted stock units typically vest in zero to three years from the date of grant, provided the grantee remains employed by us at the vesting date. The fair value of these awards and units is equal to the market price of our common stock on the date of grant. We do not currently have a broad-based program that provides for restricted stock awards or restricted stock units on an annual basis. Changes in restricted stock awards and restricted stock units for 2017, 2016 and 2015 were as follows:

	2017		2016		2015	
(Shares in thousands)	Shares	Weighted-Average Fair Value on Date of Grant	Shares	Weighted-Average Fair Value on Date of Grant	Shares	Weighted-Average Fair Value on Date of Grant
Beginning of year balance	151	$ 28.89	60	$ 42.88	73	$ 45.82
Granted	606	7.15	384	16.87	198	31.26
Vested	(623)	8.10	(293)	16.00	(200)	32.01
Forfeited	(119)	25.27	—	—	(11)	51.39
End of year balance	15	$ 42.09	151	$ 28.89	60	$ 42.88

millions	2017	2016	2015
Aggregate fair value of shares granted based on weighted average fair value at date of grant	$ 4	$ 6	$ 6
Aggregate fair value of shares vesting during period	4	4	6
Aggregate fair value of shares forfeited during period	1	—	—

Approximately 15,000 shares of the 15,000 shares of unvested restricted stock and restricted stock units outstanding at February 3, 2018 are scheduled to vest during 2018, subject to satisfaction of applicable vesting conditions.

Common Share Repurchase Program

From time to time, we repurchase shares of our common stock under a common share repurchase program authorized by our Board of Directors. The common share repurchase program was initially announced in 2005 with a total authorization since inception of the program of $6.5 billion. During 2017, 2016 and 2015, we repurchased no shares of our common stock under our common share repurchase program. At February 3, 2018, we had approximately $504 million of remaining authorization under our common share repurchase program.

The share repurchase program has no stated expiration date and share repurchases may be implemented using a variety of methods, which may include open market purchases, privately negotiated transactions, block trades, accelerated share repurchase transactions, the purchase of call options, the sale of put options or otherwise, or by any combination of such methods.

Accumulated Other Comprehensive Loss

The following table displays the components of accumulated other comprehensive loss:

millions	February 3, 2018	January 28, 2017	January 30, 2016
Pension and postretirement adjustments (net of tax of $(225), $(225) and $(296), respectively)	$ (1,071)	$ (1,549)	$ (1,915)
Currency translation adjustments (net of tax of $0 for all periods presented)	(1)	(3)	(3)
Accumulated other comprehensive loss	$ (1,072)	$ (1,552)	$ (1,918)

Pension and postretirement adjustments relate to the net actuarial loss on our pension and postretirement plans recognized as a component of accumulated other comprehensive loss.

Income Tax Expense Allocated to Each Component of Other Comprehensive Income (Loss)

Income tax expense allocated to each component of other comprehensive income (loss) was as follows:

	2017		
millions	Before Tax Amount	Tax Expense	Net of Tax Amount
Other comprehensive income			
Pension and postretirement adjustments			
Experience loss	$ (182)	$ —	$ (182)
Less: cost of settlements	479	—	479
Less: recognized net loss and other included in net periodic benefit cost[(1)]	181	—	181
Pension and postretirement adjustments, net of tax	478	—	478
Currency translation adjustments	2	—	2
Total other comprehensive income	$ 480	$ —	$ 480

	2016		
millions	Before Tax Amount	Tax Expense	Net of Tax Amount
Other comprehensive income			
Pension and postretirement adjustments			
Experience gain	$ 181	$ (71)	$ 110
Less: recognized net loss and other included in net periodic benefit cost(1)	256	—	256
Pension and postretirement adjustments, net of tax	437	(71)	366
Dissolution of noncontrolling interest	(7)	—	(7)
Total other comprehensive income	$ 430	$ (71)	$ 359

(1) Included in the computation of net periodic benefit expense. See Note 7 to the Consolidated Financial Statements.

	2015		
millions	Before Tax Amount	Tax Expense	Net of Tax Amount
Other comprehensive income			
Pension and postretirement adjustments			
Experience loss	$ (148)	$ —	$ (148)
Less: recognized net loss and other included in net periodic benefit cost(1)	261	—	261
Pension and postretirement adjustments, net of tax	113	—	113
Currency translation adjustments	(1)	—	(1)
Total other comprehensive income	$ 112	$ —	$ 112

(1) Included in the computation of net periodic benefit expense. See Note 7 to the Consolidated Financial Statements.

Issuance of Warrants to Purchase Common Stock

On November 21, 2014, the Company issued an aggregate of approximately 22 million warrants pursuant to the exercise of rights in the rights offering for $625 million in aggregate principal amount of 8% Senior Unsecured Notes due 2019 and warrants to purchase shares of its common stock. The exercise price and the number of shares of common stock issuable upon exercise of a warrant are both subject to adjustment in certain circumstances. As of October 31, 2015, each warrant, when exercised, will entitle the holder thereof to purchase 1.11 shares of the Company's common stock at an exercise price of $25.686 per share under the terms of the warrant agreement, adjusted from the previously disclosed one share of the Company's common stock at an exercise price of $28.41 per share. The exercise price is payable in cash or by surrendering Old Senior Unsecured Notes or New Senior Unsecured Notes, in each case with a principal amount at least equal to the exercise price. The warrants may be exercised at any time after November 24, 2014. Unless earlier exercised, the warrants will expire on December 15, 2019.

We accounted for the warrants in accordance with accounting standards applicable to distinguishing liabilities from equity and debt with conversion and other options. Accordingly, the warrants have been classified as additional paid-in capital in the Consolidated Balance Sheets based on the relative fair value of the warrants and the related 8% Senior Unsecured Notes due 2019 at the time of issuance. We monitor changes in circumstances that could cause the classification of the warrants to change. The fair value of the warrants and the related 8% Senior Unsecured Notes due 2019 was estimated based on quoted market prices for the same issues using Level 1 measurements as defined in Note 5.

NOTE 10—INCOME TAXES

millions	2017	2016	2015
Loss before income taxes:			
U.S.	$ (1,012)	$ (2,429)	$ (1,420)
Foreign	31	34	35
Total	$ (981)	$ (2,395)	$ (1,385)
Income tax benefit:			
Current:			
Federal	$ 9	$ 13	$ 11
State and local	(3)	16	20
Foreign	13	18	17
Total current	19	47	48
Deferred:			
Federal	(429)	(87)	(239)
State and local	(187)	(134)	(66)
Foreign	(1)	—	—
Total deferred	(617)	(221)	(305)
Total	$ (598)	$ (174)	$ (257)

	2017	2016	2015
Effective tax rate reconciliation:			
Federal income tax rate (benefit rate)	(33.7)%	(35.0)%	(35.0)%
State and local tax (benefit) net of federal tax benefit	(11.8)	(3.0)	(1.8)
Federal tax rate change	(22.6)	—	—
Federal and state valuation allowance	21.2	41.1	37.4
Land and indefinite-lived intangibles	(12.1)	(0.2)	(16.9)
Impairment of indefinite-lived trade names	(1.8)	(6.0)	(4.9)
Loss disallowance	—	—	3.5
Tax credits	(0.4)	(0.3)	(0.7)
Resolution of income tax matters	(0.8)	—	(0.3)
Adjust foreign statutory rates	(1.0)	0.1	(0.3)
Repatriation toll charge	1.8	—	—
Tax benefit resulting from other comprehensive income allocation	—	(2.9)	—
Other	0.2	(1.1)	0.4
	(61.0)%	(7.3)%	(18.6)%

millions	February 3, 2018	January 28, 2017
Deferred tax assets and liabilities:		
Deferred tax assets:		
Federal benefit for state and foreign taxes	$ 117	$ 148
Accruals and other liabilities	142	135
Net operating loss carryforwards	1,736	2,255
Pension and postretirement benefit plans	972	1,244
Property and equipment	139	231
Deferred income	266	479
Credit carryforwards	899	875
Other	208	218
Total deferred tax assets	4,479	5,585
Valuation allowance	(4,187)	(5,519)
Net deferred tax assets	292	66
Deferred tax liabilities:		
Trade names/Intangibles	285	573
Inventory	105	193
Other	28	43
Total deferred tax liabilities	418	809
Net deferred tax liability	$ (126)	$ (743)

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code that will affect our fiscal year ended February 3, 2018, including, but not limited to, (1) reducing the U.S. federal corporate tax rate to 21%, (2) requiring a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries that is payable over eight years and (3) various other miscellaneous changes that are effective in fiscal 2017. With the lower U.S. federal corporate rate effective beginning January 1, 2018, our U.S. federal corporate tax rate for 2017 is a blended rate of 33.717%.

In addition to the 21% reduced federal corporate tax rate, the Tax Act also establishes new tax laws that will affect fiscal 2018, including, but not limited to, (1) the creation of the base erosion anti-abuse tax ("BEAT"), a new minimum tax; (2) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (3) a new provision designed to tax global intangible low-taxed income ("GILTI"); (4) a new limitation on deductible interest expense; (5) limitations on the deductibility of certain executive compensation; (6) limitations on the use of foreign tax credits ("FTCs") to reduce the U.S. income tax liability; and (7) limitations on net operating losses ("NOLs") generated in tax years beginning after December 31, 2017, to 80% of taxable income with indefinite carryovers.

The SEC staff issued Staff Accounting Bulletin ("SAB") 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting in accordance with accounting standards applicable to income taxes. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under accounting standards applicable to income taxes is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply accounting standards applicable to income taxes on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

The income tax benefit for the period ended February 3, 2018 included a tax benefit of approximately $470 million related to the impacts of the Tax Act. The impacts of the Tax Act primarily consist of a net benefit for the corporate rate reduction of $222 million, a net tax benefit for the valuation allowance release of $270 million, and a net expense for the transition tax of $11 million.

For various reasons that are discussed below, our accounting for the following elements of the Tax Act is incomplete. However, we were able to make reasonable estimates of certain effects and, therefore, recorded provisional adjustments as follows:

Reduction of U.S. federal corporate tax rate: As a result of the reduced corporate rate, our deferred tax assets, liabilities and valuation allowance decreased. Further, as we had a net deferred tax liability after valuation allowance, these decreases resulted in a deferred income tax benefit of $222 million for the year ended February 3, 2018. While we were able to make a reasonable estimate of the impact of the reduction in the corporate rate, it may be affected by other analyses related to the Tax Act, including, but not limited to, our calculation of deemed repatriation of deferred foreign income and state tax effect of adjustments made to federal temporary differences.

Deemed Repatriation Transition Tax: The Deemed Repatriation Transition Tax ("Transition Tax") is a tax on previously untaxed accumulated and current earnings and profits ("E&P") of certain of our foreign subsidiaries. To determine the amount of the Transition Tax, we must determine, in addition to other factors, the amount of post-1986 E&P of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. We are able to make a reasonable estimate of the Transition Tax and recorded a provisional Transition Tax obligation of $6 million and a provisional withholding tax obligation of $11 million. As a result of our valuation allowance on NOLs, only the $11 million withholding tax obligation resulted in a current tax expense. However, we are continuing to gather additional information to more precisely compute the amount of the Transition Tax.

Valuation Allowances: The Company assessed whether its valuation allowance analyses are affected by various aspects of the Tax Act (e.g., deemed repatriation of deferred foreign income, new categories of FTCs, and other miscellaneous provisions of the Tax Act), any corresponding determination of the need for or change in a valuation allowance is also provisional.

Global Intangible Low Taxes Income (GILTI): The Tax Act creates a new requirement that certain income (i.e., GILTI) earned by controlled foreign corporations ("CFCs") must be included currently in the gross income of the CFC's U.S. shareholder. GILTI is the excess of the shareholder's "net CFC tested income" over the net deemed tangible income return, which is currently defined as the excess of (1) 10% of the aggregate of the U.S. shareholder's pro rata share of the qualified business asset investment of each CFC with respect to which it is a U.S. shareholder over (2) the amount of certain interest expense taken into account in the determination of net CFC-tested income.

Because of the complexity of the new GILTI tax rules, we are continuing to evaluate this provision of the Tax Act and the application of accounting standards applicable to income taxes. In accordance with accounting standards applicable to income taxes, we are allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factoring such amounts into a company's measurement of its deferred taxes (the "deferred method"). We selected the period cost method.

Income tax expense or benefit from continuing operations is generally determined without regard to other categories of earnings, such as discontinued operations and other comprehensive income ("OCI"). An exception is provided in the authoritative accounting guidance when there is income from categories other than continuing operations and a loss from continuing operations in the current year. In this case, the tax benefit allocated to continuing operations is the amount by which the loss from continuing operations reduces the tax expense recorded with respect to the other categories of earnings, even when a valuation allowance has been established against the deferred tax assets. In instances where a valuation allowance is established against current year losses, income from other sources, including gain from pension and other postretirement benefits recorded as a component of OCI and creation of a deferred tax liability through additional paid in capital, is considered when determining whether sufficient future taxable income exists to realize the deferred tax assets. As a result, for the year ended January 28, 2017, the Company recorded a tax expense of $71 million in OCI related to the net gain on pension and other postretirement benefits, and recorded a corresponding tax benefit of $71 million in continuing operations. The Company did not have this situation for the year ended February 3, 2018.

Accounting standards for income taxes require that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the financial reporting and tax bases of recorded assets and liabilities. Accounting standards also require that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion of or all of the deferred tax asset will not be realized.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year periods ended February 3, 2018, January 28, 2017 and January 30, 2016. Such objective evidence limits the ability to consider other subjective evidence such as our projections for future income.

On the basis of this analysis and the significant negative objective evidence, the Company has a valuation allowance to record only the portion of the deferred tax asset that more likely than not will be realized. For the year ended January 30, 2016, the valuation allowance increased by $279 million of which $63 million was recorded through other comprehensive income. For the year ended January 28, 2017, the valuation allowance increased by $762 million of which $3 million was recorded through other comprehensive income and paid in capital. For the year ended February 3, 2018, the valuation allowance decreased by $1.3 billion, primarily due to the reduction of the U.S. corporate tax rate from 35% to 21% and the re-characterization of future net operating losses to indefinite life resulting in a valuation allowance release of 80% of our remaining indefinite life deferred tax liability. Included within the net decrease in the valuation allowance was an increase of $62 million recorded through other comprehensive income.

At February 3, 2018 and January 28, 2017, we had a valuation allowance of $4.2 billion and $5.5 billion, respectively. The amount of the deferred tax asset considered realizable, however, could be adjusted in the future if estimates of future taxable income during the carryforward period are reduced or increased, or if the objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as our projections for growth. We will continue to evaluate our valuation allowance in future years for any change in circumstances that causes a change in judgment about the realizability of the deferred tax asset.

At the end of 2017 and 2016, respectively, we had a federal and state net operating loss ("NOL") deferred tax asset of $1.7 billion and $2.3 billion, which will expire predominately between 2019 and 2037. We have credit carryforwards of $899 million, which will expire between 2018 and 2037.

In connection with the Craftsman Sale in the first quarter of 2017, the Company realized a tax benefit of $101 million on the deferred taxes related to the indefinite-life intangible for the trade name sold to Stanley Black & Decker. In addition, the Company incurred a taxable gain of approximately $963 million. There was no federal income tax payable resulting from the taxable gain due to the utilization of NOL tax attributes of approximately $361 million with a valuation allowance release of the same amount. However, there was state income tax of $4 million payable after the utilization of state tax attributes.

In July, 2016, the Company sold shares of an investment for $106 million. The sale resulted in a U.S. taxable gain of $105 million, but no current income tax is payable due to the utilization of NOL attributes of $37 million with a valuation allowance release of the same amount.

On July 7, 2015, Holdings completed the Seritage transaction. As part of the transaction, Holdings sold 235 properties to Seritage along with Holdings' 50% interests in the JVs, which hold an additional 31 properties (See Note 11 for additional information and defined terms).

In connection with the Seritage transaction and the JV transactions, the Company realized a tax benefit of $229 million on the deferred taxes related to the indefinite-life assets associated with the property sold. In addition, the Company incurred a taxable gain of approximately $2.2 billion, taking into account any related party loss disallowance, on these transactions. There was no federal income tax payable resulting from the taxable gain due to the utilization of NOL tax attributes of approximately $856 million with a valuation allowance release of the same amount. However, there was a minor amount of state and city income tax payable of $4 million after the utilization of state and city tax attributes. As a result of all the effects from the Seritage transaction and the JV transactions in 2015, the impact to the net valuation allowance was a release of approximately $500 million.

Accounting for Uncertainties in Income Taxes

We are present in a large number of taxable jurisdictions, and at any point in time, can have audits underway at various stages of completion in any of these jurisdictions. We evaluate our tax positions and establish liabilities for uncertain tax positions that may be challenged by federal, foreign and/or local authorities and may not be fully sustained, despite our belief that the underlying tax positions are fully supportable. Unrecognized tax benefits are reviewed on an ongoing basis and are adjusted in light of changing facts and circumstances, including progress of tax audits, developments in case law, and closing of statute of limitations. Such adjustments are reflected in the tax provision as appropriate. While we do not expect material changes, it is possible that the amount of unrecognized benefit with respect to our uncertain tax positions will significantly increase or decrease within the next 12 months related to the audits described above. At this time, our estimated range of impact on the balance of unrecognized tax benefits for 2018 is a change of $1 million to $14 million, which would impact the effective tax rate by $1 million to $11 million. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits ("UTB") is as follows:

	Federal, State and Foreign Tax		
millions	February 3, 2018	January 28, 2017	January 30, 2016
Gross UTB Balance at Beginning of Period	$ 142	$ 137	$ 131
Tax positions related to the current period:			
Gross increases	20	12	14
Gross decreases	—	—	—
Tax positions related to prior periods:			
Gross increases	—	—	—
Gross decreases	(26)	—	—
Settlements	(1)	—	—
Lapse of statute of limitations	(5)	(7)	(8)
Gross UTB Balance at End of Period	$ 130	$ 142	$ 137

At the end of 2017, we had gross unrecognized tax benefits of $130 million. Of this amount, $103 million would, if recognized, impact our effective tax rate, with the remaining amount being comprised of unrecognized tax benefits related to indirect tax benefits. During 2017 and 2016, the gross unrecognized tax benefits increased by $20 million and $12 million, respectively, due to current year accruals for existing tax positions. We expect that our unrecognized tax benefits could decrease up to $10 million over the next 12 months for tax audit settlements and the expiration of the statute of limitations for certain jurisdictions.

We classify interest expense and penalties related to unrecognized tax benefits and interest income on tax overpayments as components of income tax expense. At February 3, 2018 and January 28, 2017, the total amount of interest and penalties recognized within the related tax liability in our Consolidated Balance Sheet was $51 million ($40 million net of federal benefit) and $61 million ($40 million net of federal benefit), respectively. The total amount of net interest benefit recognized in our Consolidated Statements of Operations was $6 million in 2017. The total amount of net interest expense recognized in our Consolidated Statements of Operations was $3 million and $4 million in 2016 and 2015, respectively.

We file income tax returns in both the United States and various foreign jurisdictions. The U.S. Internal Revenue Service ("IRS") has completed its examination of all federal tax returns of Holdings through the 2009 return, and all matters arising from such examinations have been resolved. In addition, Holdings and Sears are under examination by various state, local and foreign income tax jurisdictions for the years 2003 through 2016, and Kmart is under examination by such jurisdictions for the years 2006 through 2016.

NOTE 11—REAL ESTATE TRANSACTIONS

Gain on Sales of Assets

We recognized $1.6 billion, $247 million and $743 million in gains on sales of assets during 2017, 2016 and 2015, respectively. These gains were primarily a result of several real estate transactions. Real estate transactions in 2017 included properties that served as collateral for our real estate facilities for which proceeds of $250 million, $116 million and $55 million were used to pay interest and a portion of the 2016 Secured Loan Facility, 2017 Secured Loan Facility and Incremental Loans, respectively. Gains in 2017 also included a gain of $492 million in connection with the Craftsman Sale, which is further described in Note 1.

Seritage transaction and JV transactions

On April 1, 2015, April 13, 2015, and April 30, 2015, Holdings and General Growth Properties, Inc. ("GGP"), Simon Property Group, Inc. ("Simon") and The Macerich Company ("Macerich"), respectively, announced that they entered into three distinct real estate joint ventures (collectively, the "JVs"). Holdings contributed 31 properties to the JVs where Holdings currently operates stores (the "JV properties"), in exchange for a 50% interest in the JVs and $429 million in cash ($426 million, net of closing costs) (the "JV transactions"). The JV transactions valued the JV properties at $858 million in the aggregate.

On July 7, 2015, Holdings completed its rights offering and sale-leaseback transaction (the "Seritage transaction") with Seritage Growth Properties ("Seritage"), an independent publicly traded real estate investment trust ("REIT"). As part of the Seritage transaction, Holdings sold 235 properties to Seritage (the "REIT properties") along with Holdings' 50% interest in the JVs. Holdings received aggregate gross proceeds from the Seritage transaction of $2.7 billion ($2.6 billion, net of closing costs). The Seritage transaction was partially financed through the sale of common shares and limited partnership units, totaling $1.6 billion, including $745 million received from ESL and its affiliates and $297 million received from Fairholme and its affiliates as further described in Note 15. The Seritage transaction valued the REIT properties at $2.3 billion in the aggregate.

In connection with the Seritage transaction and JV transactions, Holdings entered into agreements with Seritage and the JVs under which Holdings initially leased 255 of the properties (the "Master Leases"), with the remaining properties being leased by Seritage to third parties. Holdings has closed 19 stores pursuant to recapture notices from Seritage or the JVs and 56 stores pursuant to lease terminations. An additional 11 stores will close in 2018 pursuant to recapture notices from Seritage or the JVs. Also, in July 2017, Seritage sold a 50% joint venture interest in five of the properties and Holdings will pay rent to the new landlord.

We accounted for the Seritage transaction and JV transactions in accordance with accounting standards applicable to real estate sales and sale-leaseback transactions. We determined that the Seritage transaction qualifies for sales recognition and sale-leaseback accounting. Because of our initial ownership interest in the JVs and continuing involvement in the properties, we determined that the JV transactions, which occurred in the first quarter of 2015, did not initially qualify for sale-leaseback accounting and, therefore, accounted for the JV transactions as financing transactions and, accordingly, recorded a sale-leaseback financing obligation of $426 million and continued to report the real property assets on our Condensed Consolidated Balance Sheets at May 2, 2015. Upon the sale of our 50% interest in the JVs to Seritage, the continuing involvement through an ownership interest in the buyer-lessor no longer existed, and Holdings determined that the JV transactions then qualified for sales recognition and sale-leaseback accounting, with the exception of four properties for which we had continuing involvement as a result of an obligation to redevelop the stores for a third-party tenant and pay rent on behalf of the third-party tenant until it commences rent payments to the JVs.

With the exception of the four properties that had continuing involvement, in accordance with accounting standards related to sale-leaseback transactions, Holdings recognized any loss on sale immediately, any gain on sale in excess of the present value of minimum lease payments immediately, and any remaining gain was deferred and will be recognized in proportion to the related rent expense over the lease term. Holdings received aggregate net proceeds of $3.1 billion for the Seritage transaction and JV transactions. The carrying amount of property and equipment, net and lease balances related to third-party leases that were assigned to Seritage and the JVs was $1.5 billion at July 7, 2015, of which $1.3 billion was recorded in our Sears Domestic segment and $175 million in our Kmart segment. Accordingly, during the second quarter of 2015, Holdings recognized an immediate net gain of $508

million within gain on sales of assets in the Consolidated Statements of Operations for 2015, comprised of a gain for the amount of gain on sale in excess of the present value of minimum lease payments, offset by a loss for properties where the fair value was less than the carrying value and the write-off of lease balances related to third-party leases that were assigned to Seritage and the JVs, as shown in the table below.

	2015		
millions	Kmart	Sears Domestic	Sears Holdings
Gain	$ 154	$ 471	$ 625
Loss	(17)	(100)	(117)
Immediate Net Gain	$ 137	$ 371	$ 508

The remaining gain of $894 million was deferred and will be recognized in proportion to the related rent expense, which is a component of cost of sales, buying and occupancy, in the Consolidated Statements of Operations, over the lease term.

During 2017 and 2016, respectively, Holdings recorded gains of $253 million and $72 million related to recapture and termination activity in connection with REIT properties and JV properties. The Master Leases provide Seritage and the JVs rights to recapture 100% of certain stores. The Master Leases also provide Seritage and the JVs a recapture right with respect to approximately 50% of the space within the stores at the REIT properties and JV properties (subject to certain exceptions), in addition to all of the automotive care centers, all outparcels or outlots, and certain portions of parking areas and common areas, except as set forth in the Master Leases, for no additional consideration. As space is recaptured pursuant to the recapture right, Holdings' obligation to pay rent is reduced proportionately. Accordingly, Holdings recognizes gains equal to the unamortized portion of the gain that had previously been deferred which exceeds the present value of minimum lease payments, as reduced due to recapture activity. The Master Leases also provide Holdings certain rights to terminate the Master Leases with respect to REIT properties or JV properties that cease to be profitable for operation. In order to terminate the Master Lease for a certain property, Holdings must make a payment to Seritage or the JV of an amount equal to one year of rent (together with taxes and other expenses) with respect to such property. The Company recognizes the corresponding expenses for termination payments to Seritage when we notify Seritage of our intention to terminate the leases and the stores are announced for closure. We recorded expense of $24 million and $21 million for termination payments to Seritage in 2017 and 2016, respectively, of which $11 million was reported as an amount payable to Seritage at January 28, 2017.

Holdings also recorded immediate gains of $40 million during the 2017, for the amount of gains on sale in excess of the present value of minimum lease payments for two of the properties that were previously accounted for as financing transactions. As the redevelopment at the stores had been completed and the third-party tenant had commenced rent payments to the JVs, the Company determined that the continuing involvement no longer existed and that the properties qualified for sales recognition and sale-leaseback accounting.

Sale-leaseback financing transactions

Holdings received cash proceeds for sale-leaseback financing transactions of $106 million, $71 million and $508 million in 2017, 2016 and 2015, respectively, including the Seritage transaction and JV transactions in 2015, as further described above. We accounted for the other transactions as financing transactions in accordance with accounting standards applicable to sale-leaseback transactions as a result of other forms of continuing involvement, including an earn-out provision and the requirement to prepay rent for one year. Accordingly, Holdings recorded a sale-leaseback financing obligation of $247 million and $235 million, at February 3, 2018 and January 28, 2017, respectively, which is classified as a long-term sale-leaseback financing obligation in the Consolidated Balance Sheets. The sale-leaseback financing obligation related to the four properties that had continuing involvement decreased to $70 million at February 3, 2018 as two of the properties qualified for sales recognition and sale-leaseback accounting as further described above. We continued to report real property assets of $66 million and $96 million at February 3, 2018 and January 28, 2017, respectively, in our Consolidated Balance Sheets, which are included in our Sears Domestic segment. The obligation for future minimum lease payments at February 3, 2018 is $59 million over the lease terms, and $6 million in 2018, $11 million in 2019, $9 million in 2020, $6 million in

2021, $6 million in 2022 and $21 million thereafter, excluding $6 million was that was prepaid upon closing the transactions.

Other real estate transactions

In addition to the Seritage transaction, JV transactions and other sale-leaseback financing transactions described above, we recorded gains on the sales of assets for other items described as follows.

During 2017, we recorded gains on the sales of assets of $544 million recognized on the sale or amendment and lease termination of 48 Sears Full-line stores and four non-retail locations in our Sears Domestic segment for which we received $711 million cash proceeds. During 2017, we also recorded gains on the sales of assets of $164 million recognized on the sale or amendment and lease termination of 41 Kmart stores and two non-retail locations in our Kmart segment for which we received $190 million cash proceeds.

During 2016, we recorded gains on the sales of assets of $15 million recognized on the sale of two Sears Full-line stores for which we received $27 million of cash proceeds, $12 million recognized on the sale of one distribution center for which we received $23 million of cash proceeds and $10 million on the sale of one Kmart store for which we received $10 million of cash proceeds.

During 2015, we recorded gains on the sales of assets of $83 million recognized on the sale of one Sears Full-line store for which we received $102 million of cash proceeds, $90 million of which was received during the third quarter of 2014. As the leaseback ended and the remaining cash proceeds of $12 million were received during 2015, we recognized the gain that had previously been deferred. We also recorded gains on the sales of assets of $86 million recognized on the sale of two Sears Full-line stores for which we received $96 million of cash proceeds, and $10 million recognized on the surrender and early termination of one Kmart store lease.

Certain sales of our properties had leaseback arrangements. We determined that the transactions with leaseback arrangements qualify for sales recognition and sale-leaseback accounting. In accordance with accounting standards related to sale-leaseback transactions, Holdings recognized any loss on sale immediately, any gain on sale in excess of the present value of minimum lease payments immediately, and any remaining gain was deferred and will be recognized in proportion to the related rent expense over the lease term. At February 3, 2018 and January 28, 2017, respectively, $138 million and $132 million of the deferred gain on sale-leaseback is classified as current within other current liabilities, and $362 million and $563 million is classified as long-term deferred gain on sale-leaseback in the Consolidated Balance Sheets. For the other transactions, we determined that we have surrendered substantially all of our rights and obligations, and, therefore, immediate gain recognition is appropriate.

Holdings recorded rent expense in connection with sale-lease back transactions with gains that were initially deferred and are being recognized in proportion to the related rent expense over the lease term of $82 million, $96 million and $68 million in 2017, 2016 and 2015, respectively, in cost of sales, buying and occupancy in the Consolidated Statements of Operations. Rent expense consisted of straight-line rent expense offset by amortization of a deferred gain on sale-leaseback, as shown in the table below.

	2017			2016			2015		
millions	Kmart	Sears Domestic	Sears Holdings	Kmart	Sears Domestic	Sears Holdings	Kmart	Sears Domestic	Sears Holdings
Straight-line rent expense	$ 20	$ 140	$ 160	$ 32	$ 152	$ 184	$ 20	$ 100	$ 120
Amortization of deferred gain on sale-leaseback	(11)	(67)	(78)	(17)	(71)	(88)	(11)	(41)	(52)
Rent expense	$ 9	$ 73	$ 82	$ 15	$ 81	$ 96	$ 9	$ 59	$ 68

NOTE 12—GOODWILL AND INTANGIBLE ASSETS

The following summarizes our intangible assets at February 3, 2018 and January 28, 2017, respectively, the amortization expenses recorded for the years then ended, as well as our estimated amortization expense for the next five years and thereafter.

	February 3, 2018		January 28, 2017	
millions	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizing intangible assets:				
Favorable lease rights	$ 121	$ 44	$ 143	$ 52
Non-amortizing intangible assets:				
Trade names	1,091	—	1,430	—
Total	$ 1,212	$ 44	$ 1,573	$ 52

Annual Amortization Expense	
2017	$ 4
2016	5
2015	7

Estimated Amortization	
2018	$ 3
2019	3
2020	3
2021	3
2022	3
Thereafter	56

Goodwill is the excess of the purchase price over the fair value of the net assets acquired in business combinations accounted for under the purchase method. Goodwill is recorded at Sears Domestic and had a balance of $269 million at both February 3, 2018 and January 28, 2017.

As described in Summary of Significant Accounting Policies in Note 1, goodwill and indefinite-lived intangible assets are not amortized but require testing for potential impairment, at a minimum on an annual basis, or when indications of potential impairment exist. As a result of our annual testing of indefinite-lived intangible assets, we recorded impairment related to the Sears trade name of $72 million, $381 million and $180 million in 2017, 2016 and 2015, respectively, which reduced the carrying value to $359 million at February 3, 2018 and $431 million at January 28, 2017. The impairment is recorded at Sears Domestic and included within impairment charges on our Consolidated Statements of Operations.

NOTE 13—STORE CLOSING CHARGES, SEVERANCE COSTS AND IMPAIRMENTS

Store Closings and Severance

During 2017, 2016 and 2015, respectively, we closed 303, 206 and 38 stores in our Kmart segment and 123, 37 and 12 stores in our Sears Domestic segment. An additional 66 stores in our Kmart segment and 40 stores in our Sears Domestic segment will close during the first quarter of 2018 that we previously announced would close. We also made the decision to close one domestic supply chain distribution center in our Sears Domestic segment during 2016.

In accordance with accounting standards governing costs associated with exit or disposal activities, expenses related to future rent payments for which we no longer intend to receive any economic benefit are accrued for when we cease to use the leased space and have been reduced for any estimated sublease income. We expect to record additional charges of approximately $55 million during 2018 related to stores we had previously made the decision to close, but have not yet closed.

Store closing costs and severance recorded for 2017, 2016 and 2015 were as follows:

millions	Markdowns[1]	Severance Costs[2]	Lease Termination Costs[2]	Other Charges[2]	Impairment and Accelerated Depreciation[3]	Total Store Closing Costs
Kmart	$ 154	$ 25	$ 80	$ 22	$ 19	$ 300
Sears Domestic	73	58	40	10	21	202
Total 2017 costs	$ 227	$ 83	$ 120	$ 32	$ 40	$ 502
Kmart	$ 187	$ 28	$ 71	$ 32	$ 13	$ 331
Sears Domestic	39	13	5	9	7	73
Total 2016 costs	$ 226	$ 41	$ 76	$ 41	$ 20	$ 404
Kmart	$ 39	$ 16	$ 21	$ 10	$ 1	$ 87
Sears Domestic	5	21	(15)	1	2	14
Total 2015 costs	$ 44	$ 37	$ 6	$ 11	$ 3	$ 101

(1) Recorded within cost of sales, buying and occupancy in the Consolidated Statements of Operations.
(2) Recorded within selling and administrative in the Consolidated Statements of Operations. Lease termination costs are net of estimated sublease income, and include the reversal of closed store reserves for which the lease agreement has been terminated and the reversal of deferred rent balances related to closed stores.
(3) 2017, 2016 and 2015 costs are recorded within depreciation and amortization on the Consolidated Statements of Operations.

Store closing cost accruals of $261 million, $216 million and $180 million at February 3, 2018, January 28, 2017 and January 30, 2016, respectively, were as shown in the table below. Store closing accruals included $126 million, $122 million and $81 million within other current liabilities and $135 million, $94 million and $99 million within other long-term liabilities in the Consolidated Balance Sheets at February 3, 2018, January 28, 2017 and January 30, 2016, respectively.

millions	Severance Costs	Lease Termination Costs	Other Charges	Total
Balance at January 30, 2016	$ 58	$ 114	$ 8	$ 180
Store closing costs	41	85	41	167
Payments/utilizations/other	(45)	(55)	(31)	(131)
Balance at January 28, 2017	54	144	18	216
Store closing costs	83	162	32	277
Store closing capital lease obligations	—	33	—	33
Payments/utilizations/other	(88)	(139)	(38)	(265)
Balance at February 3, 2018	$ 49	$ 200	$ 12	$ 261

Impairment of Long-Lived Assets

As described in the Summary of Significant Accounting Policies in Note 1, we performed impairment tests of certain of our long-lived assets during 2017, 2016 and 2015 (principally the value of land, buildings and other fixed assets associated with our stores). As a result of this impairment testing, the Company recorded impairment charges as shown in the table below.

millions	2017	2016	2015
Kmart	$ 16	$ 22	$ 14
Sears Domestic	54	24	80
Sears Holdings	$ 70	$ 46	$ 94

NOTE 14—LEASES

We lease certain stores, office facilities, warehouses, computers and transportation equipment.

Operating and capital lease obligations are based upon contractual minimum rents and, for certain stores, amounts in excess of these minimum rents are payable based upon specified percentages of sales. Contingent rent is accrued over the lease term, provided that the achievement of the specified sales level that triggers the contingent rental is probable. Certain leases include renewal or purchase options.

Rental expense for operating leases was as follows:

millions	2017	2016	2015
Minimum rentals	$666	$739	$713
Percentage rentals	5	7	8
Less-Sublease rentals	(43)	(51)	(46)
Less-Amortization of deferred gain on sale-leaseback	(78)	(88)	(52)
Total	$550	$607	$623

Minimum lease obligations, excluding taxes, insurance and other expenses payable directly by us, for leases in effect at February 3, 2018, were as follows:

	Minimum Lease Commitments	
millions	Capital	Operating
2018	$ 28	$ 537
2019	15	439
2020	6	368
2021	4	297
2022	4	237
Later years	58	961
Total minimum lease payments	115	2,839
Less minimum sublease income		(92)
Net minimum lease payments		$ 2,747
Less:		
Estimated executory costs	(4)	
Interest at a weighted average rate of 4.9%	(39)	
Capital lease obligations	72	
Less current portion of capital lease obligations	(22)	
Long-term capital lease obligations	$ 50	

NOTE 15—RELATED PARTY DISCLOSURE

Mr. Lampert is our Chief Executive Officer and Chairman of our Board of Directors. Mr. Lampert is also the Chairman and Chief Executive Officer of ESL. ESL owned approximately 49% of our outstanding common stock at February 3, 2018 (excluding shares of common stock that ESL may acquire within 60 days upon the exercise of warrants to purchase shares of our common stock).

Bruce R. Berkowitz was a member of our Board of Directors from February 2016 through October 2017. Mr. Berkowitz serves as the Chief Investment Officer of Fairholme Capital Management, LLC, an investment adviser registered with the SEC, and is the President and a Director of Fairholme Funds, Inc., a SEC-registered investment company providing investment management services to three mutual funds (together with Fairholme Capital Management, LLC and other affiliates, "Fairholme"). Fairholme owned approximately 18% of our outstanding common stock at February 3, 2018 (excluding shares of common stock that Fairholme may acquire within 60 days upon the exercise of warrants to purchase shares of our common stock).

Thomas J. Tisch has been an independent member of our Board of Directors since 2005. Mr. Tisch owned approximately 3% of our outstanding common stock at February 3, 2018.

Unsecured Commercial Paper

During 2017 and 2016, ESL and its affiliates held unsecured commercial paper issued by SRAC, an indirect wholly-owned subsidiary of Holdings. For the commercial paper outstanding to ESL, the weighted average of each of maturity, annual interest rate, and principal amount outstanding for this commercial paper was 8 days, 8.22% and $28 million and 21 days, 7.87% and $100 million, respectively, in 2017 and 2016. The largest aggregate amount of principal outstanding to ESL at any time since the beginning of 2017 was $160 million and $3 million of interest was paid by SRAC to ESL during 2017.

During 2016, Fairholme and its affiliates held unsecured commercial paper issued by SRAC. For the commercial paper outstanding to Fairholme, the weighted average of each of maturity, annual interest rate, and principal amount outstanding for this commercial paper was 63 days, 7.42% and $1 million in 2016.

The commercial paper purchases were made in the ordinary course of business on substantially the same terms, including interest rates, as terms prevailing for comparable transactions with other persons, and did not present features unfavorable to the Company.

Secured Short-Term Loan

In September 2014, the Company, through the Short-Term Borrowers, entities wholly-owned and controlled, directly or indirectly by the Company, entered into the $400 million Short-Term Loan with the Short-Term Lender, entities affiliated with ESL and Fairholme. The Company repaid the Short-Term Loan during 2015, resulting in no balance outstanding at February 3, 2018 or January 28, 2017. See Note 3 for additional information regarding the Short-Term Loan.

LC Facility

On December 28, 2016, the Company, through the Borrowers, entered into the LC Facility, which was subsequently amended in August 2017, and which provides for the amended LC Facility. At February 3, 2018, and January 28, 2017, we had $271 million and $200 million, respectively, of letters of credit outstanding under the LC Facility, which amounts were initially committed by entities affiliated with ESL, and the Lenders under the LC Facility maintain cash collateral on deposit with the Issuing Bank of $133 million and $204 million at February 3, 2018 and January 28, 2017, respectively. As of February 3, 2018, $138 million of the amount originally committed by entities affiliated with ESL under the LC Facility has been syndicated to unaffiliated third party lenders. See Note 3 for additional information regarding the LC Facility, as amended.

Term Loan Facility

On January 4, 2018, the Company, through the Borrowers, obtained a $300 million loan facility from the Lenders, entities affiliated with ESL. At February 3, 2018, JPP LLC and JPP II, LLC, entities affiliated with ESL,

held $151 million of principal amount of the Term Loan Facility. See Note 3 for additional information regarding the Term Loan Facility.

2017 Secured Loan Facility

On January 3, 2017, the Company, through the 2017 Secured Loan Borrowers, obtained a $500 million real estate loan facility from the Lenders, entities affiliated with ESL. At February 3, 2018 and January 28, 2017, JPP LLC and JPP II, LLC, entities affiliated with ESL, held $384 million and $500 million of principal amount of the 2017 Secured Loan Facility, respectively. Approximately $116 million of proceeds received from real estate transactions were used to reduce outstanding borrowings under the 2017 Secured Loan Facility, all of which were repaid to entities affiliated with ESL. During October 2017, the Company, through the Incremental Loan Borrowers, obtained Incremental Loans totaling $200 million from the Lenders. At February 3, 2018, JPP LLC and JPP II, LLC, held $145 million of principal amount of the Incremental Loans. Approximately $55 million of proceeds received from real estate transactions were used to reduce outstanding borrowings under the Incremental Loans, all of which were repaid to entities affiliated with ESL. See Note 3 for additional information regarding the 2017 Secured Loan Facility and Incremental Loans.

2016 Secured Loan Facility

In April 2016, the Company, through the 2016 Secured Loan Borrowers, obtained a $500 million real estate loan facility from the 2016 Secured Loan Lenders, some of which are entities affiliated with ESL. At February 3, 2018 and January 28, 2017, entities affiliated with ESL held $126 million and $216 million, respectively, of principal amount of the 2016 Secured Loan Facility. Proceeds received from real estate transactions were used to reduce outstanding borrowings under the 2016 Secured Loan Facility, of which $89 million was repaid to entities affiliated with ESL. See Note 3 for additional information regarding the 2016 Secured Loan Facility, as amended.

2016 Term Loan

In April 2016, the Company, through the ABL Borrowers, obtained a $750 million senior secured term loan under the Amended Domestic Credit Agreement with a syndicate of lenders, including $146 million (net of original issue discount) from JPP, LLC and JPP II, LLC, entities affiliated with ESL, and $100 million from the Company's domestic pension plans. At February 3, 2018, JPP LLC and JPP II, LLC, and the Company's domestic pension plans held $38 million and $77 million, respectively, of principal amount of the 2016 Term Loan. At January 28, 2017, JPP LLC and JPP II, LLC, and the Company's domestic pension plans held $150 million and $100 million, respectively, of principal amount of the 2016 Term Loan. As disclosed in Note 3, a portion of the proceeds received from the Craftsman Sale were used to reduce outstanding borrowings under the 2016 Term Loan, of which $36 million and $24 million was repaid to JPP LLC and JPP II, LLC, and the Company's domestic pension plans, respectively. See Note 3 for additional information regarding the 2016 Term Loan.

Second Lien Credit Agreement

In September 2016, the Company, through the ABL Borrowers, obtained a $300 million Second Lien Term Loan from the Lenders, entities affiliated with ESL. At both February 3, 2018 and January 28, 2017, JPP LLC and JPP II, LLC, held $300 million of principal amount of the Second Lien Term Loan.

Additionally, as further discussed in Note 3, in July 2017, the Company amended its Second Lien Credit Agreement to create an additional Line of Credit Facility. The Company received $610 million in net proceeds from Line of Credit Loans during 2017, including $480 million, $25 million and $20 million from ESL and its affiliates, Mr. Berkowitz and his affiliates, and Mr. Tisch and his affiliates, respectively, which also represents the principal amount of Line of Credit Loans held by ESL and its affiliates and Mr. Tisch and his affiliates at February 3, 2018. The Company made repayments of $25 million during 2017 to Mr. Berkowitz and his affiliates. See Note 3 for additional information regarding the Second Lien Credit Agreement, as amended.

Old Senior Secured Notes

At February 3, 2018 and January 28, 2017, Mr. Lampert and ESL held an aggregate of approximately $20 million and $11 million, respectively, of principal amount of the Company's Old Senior Secured Notes. Mr. Lampert and ESL tendered approximately $165 million of the Company's Old Senior Secured Notes in the Offer, which is further discussed in Note 3.

At January 28, 2017, Fairholme held an aggregate of approximately $46 million of principal amount of the Company's Old Senior Secured Notes, respectively. Fairholme tendered approximately $207 million of the Company's Old Senior Secured Notes in the Tender Offer, which is further discussed in Note 3.

Subsidiary Notes

At January 28, 2017, Mr. Lampert and ESL held an aggregate of $3 million of principal amount of unsecured notes issued by SRAC (the "Subsidiary Notes").

At February 3, 2018 and January 28, 2017, Fairholme held an aggregate of $9 million and $14 million, respectively, of principal amount of the Subsidiary Notes.

Old Senior Unsecured Notes and Warrants

At both February 3, 2018 and January 28, 2017, Mr. Lampert and ESL held an aggregate of approximately $188 million of principal amount of the Company's Old Senior Unsecured Notes, and 10,033,472 warrants to purchase shares of Holdings' common stock at both February 3, 2018 and January 28, 2017.

At February 3, 2018 and January 28, 2017, respectively, Fairholme held an aggregate of approximately $336 million and $357 million of principal amount of the Company's Old Senior Unsecured Notes, and 5,768,185 and 6,713,725 warrants to purchase shares of Holdings' common stock.

At both February 3, 2018 and January 28, 2017, Mr. Tisch held an aggregate of approximately $10 million of principal amount of the Company's Old Senior Unsecured Notes, and 136,272 warrants to purchase shares of Holdings' common stock.

Sears Canada

ESL owns approximately 45% of the outstanding common shares of Sears Canada (based on publicly available information as of July 27, 2017).

Lands' End

ESL owns approximately 67% of the outstanding common stock of Lands' End (based on publicly available information as of January 24, 2018). Holdings and certain of its subsidiaries entered into a transition services agreement in connection with the spin-off pursuant to which Lands' End and Holdings agreed to provide, on an interim, transitional basis, various services, including but not limited to, tax services, logistics services, auditing and compliance services, inventory management services, information technology services and continued participation in certain contracts shared with Holdings and its subsidiaries, as well as agreements related to Lands' End Shops at Sears and participation in the Shop Your Way program. The majority of the services under the transition services agreement with Lands' End have expired or been terminated. In July 2016, the Company and Lands' End executed an agreement pursuant to which the Company will provide foreign buying office support and sourcing services to Lands' End. The agreement expires on June 30, 2020.

Amounts due to or from Lands' End are non-interest bearing, and generally settled on a net basis. Holdings invoices Lands' End on at least a monthly basis. At February 3, 2018, Holdings reported a net amount receivable from Lands' End of $1 million within accounts receivable in the Consolidated Balance Sheets. At January 28, 2017, Holdings reported a net amount payable to Lands' End of $1 million within other current liabilities in the Consolidated Balance Sheets. Amounts related to revenue from retail services and rent for Lands' End Shops at Sears, participation in the Shop Your Way program and corporate shared services were $60 million, $65 million and $69 million, respectively, during 2017, 2016 and 2015. The amounts Lands' End earned related to call center services and commissions were $2 million, $10 million and $10 million, respectively, during 2017, 2016 and 2015.

SHO

ESL owns approximately 58% of the outstanding common stock of SHO (based on publicly available information as of November 8, 2017). Holdings and certain of its subsidiaries engage in transactions with SHO pursuant to various agreements with SHO which, among other things: (1) govern the principal transactions relating to the rights offering and certain aspects of our relationship with SHO following the separation; (2) establish terms under which Holdings and certain of its subsidiaries will provide SHO with services; and (3) establish terms pursuant to which Holdings and certain of its subsidiaries will obtain merchandise for SHO.

These agreements were originally made in the context of a parent-subsidiary relationship and were negotiated in the overall context of the separation. In May 2016, the Company and SHO agreed to changes to a number of their related agreements, including extending the merchandise and services agreement until February 1, 2020.

A summary of the nature of related party transactions involving SHO is as follows:

- SHO obtains a significant amount of its merchandise from the Company. We have also entered into certain agreements with SHO to provide logistics, handling, warehouse and transportation services. SHO also pays a royalty related to the sale of Kenmore, Craftsman and DieHard products and fees for participation in the Shop Your Way program.

- SHO receives commissions from the Company for the sale of merchandise made through www.sears.com, extended service agreements, delivery and handling services and credit revenues.

- The Company provides SHO with shared corporate services. These services include accounting and finance, human resources and information technology.

Amounts due to or from SHO are non-interest bearing, settled on a net basis, and have payment terms of 10 days after the invoice date. The Company invoices SHO on a weekly basis. At February 3, 2018 and January 28, 2017, Holdings reported a net amount receivable from SHO of $28 million and $81 million, respectively, within accounts receivable in the Consolidated Balance Sheets. Amounts related to the sale of inventory and related services, royalties, and corporate shared services were $1.0 billion, $1.2 billion and $1.5 billion, respectively, during 2017, 2016 and 2015. The net amounts SHO earned related to commissions were $66 million, $82 million and $91 million, respectively, during 2017, 2016 and 2015. Additionally, the Company has guaranteed lease obligations for certain SHO store leases that were assigned as a result of the separation. See Note 4 for further information related to these guarantees.

Also in connection with the separation, the Company entered into an agreement with SHO and the agent under SHO's secured credit facility, whereby the Company committed to continue to provide services to SHO in connection with a realization on the lender's collateral after default under the secured credit facility, notwithstanding SHO's default under the underlying agreement with us, and to provide certain notices and services to the agent, for so long as any obligations remain outstanding under the secured credit facility.

Seritage

ESL owns approximately 7.2% of the total voting power of Seritage, and approximately 43.5% of the limited partnership units of Seritage Growth Properties, L.P. (the "Operating Partnership"), the entity that now owns the properties sold by the Company in the Seritage transaction and through which Seritage conducts its operations (based on publicly available information as of December 27, 2017). Mr. Lampert is also currently the Chairman of the Board of Trustees of Seritage. Fairholme owns approximately 11% of the outstanding Class A common shares of Seritage and 100% of the outstanding Class C non-voting common shares of Seritage (based on publicly available information as of February 14, 2018).

In connection with the Seritage transaction as described in Note 11, Holdings entered into the Master Leases with Seritage. The initial amount of aggregate annual base rent under the Master Leases is $134 million for the REIT properties, with increases of 2% per year beginning in the second lease year. At February 3, 2018, Holdings reported prepaid rent of $6 million within prepaid expenses and other current assets in the Consolidated Balance Sheets. Holdings recorded rent expense of $70 million, $83 million and $49 million in cost of sales, buying and occupancy for 2017, 2016 and 2015, respectively. Rent expense consists of straight-line rent expense of $117 million, $142

million and $84 million, offset by amortization of a deferred gain recognized pursuant to the sale and leaseback of properties from Seritage of $47 million, $59 million and $35 million for 2017, 2016 and 2015, respectively.

In addition to base rent under the Master Leases, Holdings pays monthly installment expenses for property taxes and insurance at all REIT properties where Holdings is a tenant and installment expenses for common area maintenance, utilities and other operating expenses at REIT properties that are multi-tenant locations where Holdings and other third parties are tenants. The initial amount of aggregate installment expenses under the Master Leases was $70 million, based on estimated installment expenses, and currently is $41 million as a result of recapture activity and reconciling actual installment expenses. Holdings paid $43 million, $64 million and $40 million for 2017, 2016 and 2015, respectively, recorded in cost of sales, buying and occupancy.

At February 3, 2018 and January 28, 2017, respectively, Holdings reported an amount receivable from Seritage of $1 million and $14 million within accounts receivable in the Consolidated Balance Sheets. Holdings reported an amount payable to Seritage of $11 million within other current liabilities in the Consolidated Balance Sheets at January 28, 2017.

NOTE 16—SUPPLEMENTAL FINANCIAL INFORMATION

Other long-term liabilities at February 3, 2018 and January 28, 2017 consisted of the following:

millions	February 3, 2018	January 28, 2017
Unearned revenues	$ 539	$ 639
Self-insurance reserves	491	535
Other	437	467
Total	$ 1,467	$ 1,641

The Company sells service contracts that provide for preventative maintenance and repair/replacement coverage on consumer products over periods of time ranging from 12 to 144 months. Revenues from the sale of service contracts, and the related direct acquisition costs, are deferred and amortized on a straight-line basis over the lives of the associated contracts, while the associated service costs are expensed as incurred. The table below shows activity related to unearned revenues for service contracts, which are recorded within unearned revenues and other long-term liabilities in the Consolidated Balance Sheets.

millions	Unearned Revenues
Balance at January 30, 2016	$ 1,405
Sales of service contracts	855
Revenue recognized on existing service contracts	(961)
Balance at January 28, 2017	1,299
Sales of service contracts	691
Revenue recognized on existing service contracts	(876)
Balance at February 3, 2018	$ 1,114

NOTE 17—SUMMARY OF SEGMENT DATA

These reportable segment classifications are based on our business formats, as described in Note 1. The Kmart format represents both an operating and reportable segment. The Sears Domestic reportable segment consists of the aggregation of several business formats. These formats are evaluated by our Chief Operating Decision Maker ("CODM") to make decisions about resource allocation and to assess performance.

Each of these segments derives its revenues from the sale of merchandise and related services to customers, primarily in the United States. The merchandise and service categories are as follows:

(i) Hardlines—consists of home appliances, consumer electronics, lawn & garden, tools & hardware, automotive parts, household goods, toys, housewares and sporting goods;

(ii) Apparel and Soft Home—includes women's, men's, kids', footwear, jewelry, accessories and soft home;

(iii) Food and Drug—consists of grocery & household, pharmacy and drugstore;

(iv) Service—includes repair, installation and automotive service and extended contract revenue; and

(v) Other—includes revenues earned in connection with our agreements with SHO and Lands' End, as well as online commissions, licensed business revenues, wholesale revenues, rental income and credit revenues.

	2017		
millions	Kmart	Sears Domestic	Sears Holdings
Merchandise sales			
Hardlines	$ 1,550	$ 5,656	$ 7,206
Apparel and Soft Home	2,096	2,182	4,278
Food and Drug	1,918	7	1,925
Total merchandise sales	5,564	7,845	13,409
Services and other			
Services	4	1,811	1,815
Other	50	1,428	1,478
Total services and other	54	3,239	3,293
Total revenues	5,618	11,084	16,702
Costs and expenses:			
Cost of sales, buying and occupancy - merchandise sales	4,592	6,757	11,349
Cost of sales and occupancy - services and other	9	1,817	1,826
Total cost of sales, buying and occupancy	4,601	8,574	13,175
Selling and administrative	1,455	3,676	5,131
Depreciation and amortization	60	272	332
Impairment charges	16	126	142
Gain on sales of assets	(881)	(767)	(1,648)
Total costs and expenses	5,251	11,881	17,132
Operating income (loss)	$ 367	$ (797)	$ (430)
Total assets	$ 1,576	$ 5,686	$ 7,262
Capital expenditures	$ 18	$ 62	$ 80

	2016		
millions	**Kmart**	**Sears Domestic**	**Sears Holdings**
Merchandise sales			
Hardlines	$ 2,445	$ 7,126	$ 9,571
Apparel and Soft Home	3,044	2,522	5,566
Food and Drug	3,088	11	3,099
Total merchandise sales	8,577	9,659	18,236
Services and other			
Services	9	2,101	2,110
Other	64	1,728	1,792
Total services and other	73	3,829	3,902
Total revenues	8,650	13,488	22,138
Costs and expenses:			
Cost of sales, buying and occupancy - merchandise sales	7,075	8,109	15,184
Cost of sales and occupancy - services and other	18	2,250	2,268
Total cost of sales, buying and occupancy	7,093	10,359	17,452
Selling and administrative	2,175	3,934	6,109
Depreciation and amortization	71	304	375
Impairment charges	22	405	427
Gain on sales of assets	(181)	(66)	(247)
Total costs and expenses	9,180	14,936	24,116
Operating loss	$ (530)	$ (1,448)	$ (1,978)
Total assets	$ 2,134	$ 7,228	$ 9,362
Capital expenditures	$ 43	$ 99	$ 142

	2015		
millions	Kmart	Sears Domestic	Sears Holdings
Merchandise sales			
Hardlines	$ 2,936	$ 7,915	$ 10,851
Apparel and Soft Home	3,434	2,907	6,341
Food and Drug	3,735	9	3,744
Total merchandise sales	10,105	10,831	20,936
Services and other			
Services	13	2,127	2,140
Other	70	2,000	2,070
Total services and other	83	4,127	4,210
Total revenues	10,188	14,958	25,146
Costs and expenses:			
Cost of sales, buying and occupancy - merchandise sales	8,023	8,794	16,817
Cost of sales and occupancy - services and other	19	2,500	2,519
Total cost of sales, buying and occupancy	8,042	11,294	19,336
Selling and administrative	2,537	4,320	6,857
Depreciation and amortization	72	350	422
Impairment charges	14	260	274
Gain on sales of assets	(185)	(558)	(743)
Total costs and expenses	10,480	15,666	26,146
Operating loss	$ (292)	$ (708)	$ (1,000)
Total assets	$ 3,059	$ 8,278	$ 11,337
Capital expenditures	$ 42	$ 169	$ 211

NOTE 18—LEGAL PROCEEDINGS

We are a defendant in several lawsuits containing class or collective action allegations in which the plaintiffs are current and former hourly and salaried associates who allege violations of various wage and hour laws, rules and regulations pertaining to alleged misclassification of certain of our employees, the failure to pay overtime, and/or the failure to pay for missed meal and rest periods, and other payroll violations. The complaints generally seek unspecified monetary damages, injunctive relief, or both. Further, certain of these proceedings are in jurisdictions with reputations for aggressive application of laws and procedures against corporate defendants. We also are a defendant in putative class action or representative lawsuits in California relating to alleged failure to comply with California laws pertaining to certain operational, marketing, and pricing practices. The California laws alleged to have been violated in each of these lawsuits provide the potential for significant statutory penalties. At this time, the Company is not able to either predict the outcome of these lawsuits or reasonably estimate a potential range of loss with respect to the lawsuits.

We are subject to various other legal and governmental proceedings and investigations, including some involving the practices and procedures in our more highly regulated businesses. Some matters contain class action allegations, environmental and asbestos exposure allegations and other consumer-based, regulatory claims, each of which may seek compensatory, punitive or treble damage claims (potentially in large amounts), as well as other types of relief. At this time, the Company is not able to either predict the outcome of these lawsuits or reasonably estimate a potential range of loss with respect to these lawsuits.

In accordance with accounting standards regarding loss contingencies, we accrue an undiscounted liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated, and we

disclose the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for our financial statements to not be misleading. We do not record liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated, or when the liability is believed to be only reasonably possible or remote.

Because litigation outcomes are inherently unpredictable, our evaluation of legal proceedings often involves a series of complex assessments by management about future events and can rely heavily on estimates and assumptions. If the assessments indicate that loss contingencies that could be material to any one of our financial statements are not probable, but are reasonably possible, or are probable, but cannot be estimated, then we disclose the nature of the loss contingencies, together with an estimate of the range of possible loss or a statement that such loss is not reasonably estimable. While the consequences of certain unresolved proceedings are not presently determinable, and an estimate of the probable and reasonably possible loss or range of loss in excess of amounts accrued for such proceedings cannot be reasonably made, an adverse outcome from such proceedings could have a material effect on our earnings in any given reporting period. However, in the opinion of our management, after consulting with legal counsel, and taking into account insurance and reserves, the ultimate liability related to current outstanding matters is not expected to have a material effect on our financial position, liquidity or capital resources.

NOTE 19—QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	2017			
millions, except per share data	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 4,301	$ 4,365	$ 3,660	$ 4,376
Cost of sales, buying and occupancy	3,371	3,394	2,958	3,452
Selling and administrative	1,267	1,369	1,339	1,156
Net income (loss) attributable to Holdings' shareholders	244	(251)	(558)	182
Basic net income (loss) per share attributable to Holdings' shareholders	2.28	(2.34)	(5.19)	1.69
Diluted net income (loss) per share attributable to Holdings' shareholders	2.28	(2.34)	(5.19)	1.69

	2016			
millions, except per share data	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 5,394	$ 5,663	$ 5,029	$ 6,052
Cost of sales, buying and occupancy	4,217	4,403	4,067	4,765
Selling and administrative	1,503	1,484	1,543	1,579
Net loss attributable to Holdings' shareholders	(471)	(395)	(748)	(607)
Basic net loss per share attributable to Holdings' shareholders	(4.41)	(3.70)	(6.99)	(5.67)
Diluted net loss per share attributable to Holdings' shareholders	(4.41)	(3.70)	(6.99)	(5.67)

Per share amounts for each quarter are required to be computed independently and may not equal the amount computed for the total year. In the first quarter of 2017, we recorded a gain on the Craftsman Sale of $492 million. Refer to Note 1 for more information related to the Craftsman Sale. In addition, in the fourth quarter of 2017, the income tax benefit included a tax benefit of approximately $470 million related to the impacts of the Tax Act. Refer to Note 10 for more information. In the fourth quarter of 2017 and 2016, we recorded impairment related to the Sears trade name of $72 million and $381 million, respectively. Refer to Note 12 for more information related to these impairment charges.

NOTE 20—GUARANTOR/NON-GUARANTOR SUBSIDIARY FINANCIAL INFORMATION

At February 3, 2018, the principal amount outstanding of the Company's 6 5/8% senior secured notes due 2018 was $303 million. These notes were issued in 2010 by Sears Holdings Corporation ("Parent"). The Old Senior Secured Notes are guaranteed by certain of our 100% owned domestic subsidiaries that own the collateral for the Senior Secured Notes, as well as by Sears Holdings Management Corporation and SRAC (the "guarantor subsidiaries"). The following condensed consolidated financial information presents the Condensed Consolidating Balance Sheets at February 3, 2018 and January 28, 2017, and the Condensed Consolidating Statements of Operations, the Consolidating Statements of Comprehensive Income (Loss) and the Condensed Consolidating Statements of Cash flows for 2017, 2016 and 2015 of (i) Parent; (ii) the guarantor subsidiaries; (iii) the non-guarantor subsidiaries; (iv) eliminations and (v) the Company on a consolidated basis.

The principal elimination entries relate to investments in subsidiaries and intercompany balances and transactions including transactions with our wholly-owned non-guarantor insurance subsidiary. The Company has accounted for investments in subsidiaries under the equity method. The guarantor subsidiaries are 100% owned directly or indirectly by the Parent and all guarantees are joint, several and unconditional. Additionally, the notes are secured by a security interest in certain assets consisting primarily of domestic inventory and credit card receivables of the guarantor subsidiaries, and consequently may not be available to satisfy the claims of the Company's general creditors. Certain investments primarily held by non-guarantor subsidiaries are recorded by the issuers at historical cost and are recorded at fair value by the holder.

SEARS HOLDINGS CORPORATION

Notes to Consolidated Financial Statements—(Continued)

Condensed Consolidating Balance Sheet
February 3, 2018

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets					
Cash and cash equivalents	$ —	$ 152	$ 30	$ —	$ 182
Restricted cash	154	—	—	—	154
Intercompany receivables	—	—	27,993	(27,993)	—
Accounts receivable	—	322	21	—	343
Merchandise inventories	—	2,798	—	—	2,798
Prepaid expenses and other current assets	309	899	478	(1,351)	335
Total current assets	463	4,171	28,522	(29,344)	3,812
Total property and equipment, net	—	1,043	686	—	1,729
Goodwill and intangible assets	—	346	1,189	(98)	1,437
Other assets	179	1,331	1,159	(2,385)	284
Investment in subsidiaries	8,790	27,752	—	(36,542)	—
TOTAL ASSETS	$ 9,432	$ 34,643	$ 31,556	$ (68,369)	$ 7,262
Current liabilities					
Short-term borrowings	$ 144	$ 937	$ —	$ (166)	$ 915
Current portion of long-term debt and capitalized lease obligations	303	897	—	(232)	968
Merchandise payables	—	576	—	—	576
Intercompany payables	11,099	16,894	—	(27,993)	—
Other current liabilities	16	1,941	1,448	(949)	2,456
Total current liabilities	11,562	21,245	1,448	(29,340)	4,915
Long-term debt and capitalized lease obligations	1,991	2,734	—	(2,476)	2,249
Pension and postretirement benefits	—	1,616	3	—	1,619
Deferred gain on sale-leaseback	—	360	2	—	362
Sale-leaseback financing obligation	—	158	89	—	247
Long-term deferred tax liabilities	—	—	349	(223)	126
Other long-term liabilities	—	1,131	514	(178)	1,467
Total Liabilities	13,553	27,244	2,405	(32,217)	10,985
EQUITY (DEFICIT)					
Shareholder's equity (deficit)	(4,121)	7,399	29,151	(36,152)	(3,723)
Total Equity (Deficit)	(4,121)	7,399	29,151	(36,152)	(3,723)
TOTAL LIABILITIES AND EQUITY (DEFICIT)	$ 9,432	$ 34,643	$ 31,556	$ (68,369)	$ 7,262

SEARS HOLDINGS CORPORATION

Notes to Consolidated Financial Statements—(Continued)

Condensed Consolidating Balance Sheet
January 28, 2017

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets					
Cash and cash equivalents	$ —	$ 260	$ 26	$ —	$ 286
Intercompany receivables	—	—	27,415	(27,415)	—
Accounts receivable	—	441	25		466
Merchandise inventories	—	3,959	—	—	3,959
Prepaid expenses and other current assets	23	692	856	(1,286)	285
Total current assets	23	5,352	28,322	(28,701)	4,996
Total property and equipment, net	—	1,504	736	—	2,240
Goodwill and intangible assets	—	360	1,528	(98)	1,790
Other assets	4	285	931	(884)	336
Investment in subsidiaries	9,110	26,703	—	(35,813)	—
TOTAL ASSETS	$ 9,137	$ 34,204	$ 31,517	$ (65,496)	$ 9,362
Current liabilities					
Short-term borrowings	$ —	$ 108	$ —	$ (108)	$ —
Current portion of long-term debt and capitalized lease obligations	—	1,189	—	(599)	590
Merchandise payables	—	1,048	—	—	1,048
Intercompany payables	11,830	15,585	—	(27,415)	—
Other current liabilities	17	2,479	1,219	(672)	3,043
Total current liabilities	11,847	20,409	1,219	(28,794)	4,681
Long-term debt and capitalized lease obligations	1,215	3,160	—	(802)	3,573
Pension and postretirement benefits	—	1,746	4	—	1,750
Deferred gain on sale-leaseback	—	563	—	—	563
Sale-leaseback financing obligation	—	235	—	—	235
Long-term deferred tax liabilities	48	—	724	(29)	743
Other long-term liabilities	—	808	1,038	(205)	1,641
Total Liabilities	13,110	26,921	2,985	(29,830)	13,186
EQUITY (DEFICIT)					
Shareholder's equity (deficit)	(3,973)	7,283	28,532	(35,666)	(3,824)
Total Equity (Deficit)	(3,973)	7,283	28,532	(35,666)	(3,824)
TOTAL LIABILITIES AND EQUITY (DEFICIT)	$ 9,137	$ 34,204	$ 31,517	$ (65,496)	$ 9,362

Condensed Consolidating Statement of Operations
For the Year Ended February 3, 2018

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Merchandise sales	$ —	$ 13,375	$ —	$ 34	$ 13,409
Services and other	—	3,303	2,283	(2,293)	3,293
Total revenues	—	16,678	2,283	(2,259)	16,702
Cost of sales, buying and occupancy - merchandise sales	1	11,237	—	111	11,349
Cost of sales and occupancy - services and other	—	2,228	876	(1,278)	1,826
Total cost of sales, buying and occupancy	1	13,465	876	(1,167)	13,175
Selling and administrative	(27)	5,409	841	(1,092)	5,131
Depreciation and amortization	—	270	62	—	332
Impairment charges	—	70	72	—	142
Gain on sales of assets	(486)	(1,142)	(20)	—	(1,648)
Total costs and expenses	(512)	18,072	1,831	(2,259)	17,132
Operating income (loss)	512	(1,394)	452	—	(430)
Interest expense	(600)	(994)	(19)	1,074	(539)
Interest and investment income (loss)	45	195	412	(664)	(12)
Income (loss) before income taxes	(43)	(2,193)	845	410	(981)
Income tax (expense) benefit	232	765	(399)	—	598
Equity (deficit) in earnings in subsidiaries	(982)	460	—	522	—
NET INCOME (LOSS) ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS	$ (793)	$ (968)	$ 446	$ 932	$ (383)

SEARS HOLDINGS CORPORATION

Notes to Consolidated Financial Statements—(Continued)

Condensed Consolidating Statement of Operations
For the Year Ended January 28, 2017

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Merchandise sales	$ —	$ 18,218	$ —	$ 18	$ 18,236
Services and other	—	3,985	2,796	(2,879)	3,902
Total revenues	—	22,203	2,796	(2,861)	22,138
Cost of sales, buying and occupancy - merchandise sales	—	15,104	—	80	15,184
Cost of sales and occupancy - services and other	—	2,824	1,056	(1,612)	2,268
Total cost of sales, buying and occupancy	—	17,928	1,056	(1,532)	17,452
Selling and administrative	6	6,506	926	(1,329)	6,109
Depreciation and amortization	—	303	72	—	375
Impairment charges	—	46	381	—	427
Gain on sales of assets	—	(343)	(2)	98	(247)
Total costs and expenses	6	24,440	2,433	(2,763)	24,116
Operating income (loss)	(6)	(2,237)	363	(98)	(1,978)
Interest expense	(385)	(645)	(13)	639	(404)
Interest and investment income (loss)	20	152	441	(639)	(26)
Other income (loss)	13	—	(217)	217	13
Income (loss) before income taxes	(358)	(2,730)	574	119	(2,395)
Income tax (expense) benefit	28	529	(383)	—	174
Equity (deficit) in earnings in subsidiaries	(2,010)	5	—	2,005	—
NET INCOME (LOSS) ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS	$ (2,340)	$ (2,196)	$ 191	$ 2,124	$ (2,221)

SEARS HOLDINGS CORPORATION

Notes to Consolidated Financial Statements—(Continued)

Condensed Consolidating Statement of Operations
For the Year Ended January 30, 2016

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Merchandise sales	$ —	$ 20,925	$ —	$ 11	$ 20,936
Services and other	—	4,339	2,861	(2,990)	4,210
Total revenues	—	25,264	2,861	(2,979)	25,146
Cost of sales, buying and occupancy - merchandise sales	—	16,749	—	68	16,817
Cost of sales and occupancy - services and other	—	3,070	1,131	(1,682)	2,519
Total cost of sales, buying and occupancy	—	19,819	1,131	(1,614)	19,336
Selling and administrative	3	7,322	897	(1,365)	6,857
Depreciation and amortization	—	350	72	—	422
Impairment charges	—	94	180	—	274
Gain on sales of assets	—	(735)	(8)	—	(743)
Total costs and expenses	3	26,850	2,272	(2,979)	26,146
Operating income (loss)	(3)	(1,586)	589	—	(1,000)
Interest expense	(265)	(481)	(83)	506	(323)
Interest and investment income (loss)	(19)	44	419	(506)	(62)
Income (loss) before income taxes	(287)	(2,023)	925	—	(1,385)
Income tax (expense) benefit	115	480	(338)	—	257
Equity (deficit) in earnings in subsidiaries	(956)	158	—	798	—
Net income (loss)	(1,128)	(1,385)	587	798	(1,128)
Income attributable to noncontrolling interests	—	—	—	(1)	(1)
NET INCOME (LOSS) ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS	$ (1,128)	$ (1,385)	$ 587	$ 797	$ (1,129)

Consolidating Statement of Comprehensive Income (Loss)
For the Year Ended February 3, 2018

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	$ (793)	$ (968)	$ 446	$ 932	$ (383)
Other comprehensive income:					
Pension and postretirement adjustments, net of tax	—	478	—	—	478
Unrealized net gain, net of tax	6	—	45	(51)	—
Currency translation adjustments, net of tax	—	—	2	—	2
Total other comprehensive income	6	478	47	(51)	480
Comprehensive income (loss) attributable to Holdings' shareholders	$ (787)	$ (490)	$ 493	$ 881	$ 97

Consolidating Statement of Comprehensive Income (Loss)
For the Year Ended January 28, 2017

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	$ (2,340)	$ (2,196)	$ 191	$ 2,124	$ (2,221)
Other comprehensive income:					
Pension and postretirement adjustments, net of tax	—	366	—	—	366
Dissolution of noncontrolling interest	—	—	(7)	—	(7)
Unrealized net gain, net of tax	—	—	122	(122)	—
Total other comprehensive income	—	366	115	(122)	359
Comprehensive income (loss)	(2,340)	(1,830)	306	2,002	(1,862)
Comprehensive income attributable to noncontrolling interest	—	—	—	7	7
Comprehensive income (loss) attributable to Holdings' shareholders	$ (2,340)	$ (1,830)	$ 306	$ 2,009	$ (1,855)

Consolidating Statement of Comprehensive Income (Loss)
For the Year Ended January 30, 2016

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	$ (1,128)	$ (1,385)	$ 587	$ 798	$ (1,128)
Other comprehensive income (loss):					
Pension and postretirement adjustments, net of tax	—	113	—	—	113
Currency translation adjustments, net of tax	—	—	(1)	—	(1)
Unrealized net loss, net of tax	—	(3)	(65)	68	—
Total other comprehensive income (loss)	—	110	(66)	68	112
Comprehensive income (loss)	(1,128)	(1,275)	521	866	(1,016)
Comprehensive loss attributable to noncontrolling interest	—	—	—	(1)	(1)
Comprehensive income (loss) attributable to Holdings' shareholders	$ (1,128)	$ (1,275)	$ 521	$ 865	$ (1,017)

SEARS HOLDINGS CORPORATION

Notes to Consolidated Financial Statements—(Continued)

Condensed Consolidating Statement of Cash Flows
For the Year Ended February 3, 2018

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ 1	$ (2,404)	$ 682	$ (121)	$ (1,842)
Proceeds from sales of property and investments	—	1,093	16	—	1,109
Proceeds from Craftsman Sale	572	—	—	—	572
Proceeds from sales of receivables	293	—	—	—	293
Purchases of property and equipment	—	(70)	(10)	—	(80)
Net investing with Affiliates	(934)	—	(563)	1,497	—
Net cash provided by (used in) investing activities	(69)	1,023	(557)	1,497	1,894
Proceeds from debt issuances	410	610	—	—	1,020
Repayments of long-term debt	(171)	(1,185)	—	—	(1,356)
Increase in short-term borrowings, primarily 90 days or less	—	271	—	—	271
Proceeds from sale-leaseback financing	—	106	—	—	106
Debt issuance costs	(17)	(26)	—	—	(43)
Intercompany dividend	—	—	(121)	121	—
Net borrowing with Affiliates	—	1,497	—	(1,497)	—
Net cash provided by (used in) financing activities	222	1,273	(121)	(1,376)	(2)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	154	(108)	4	—	50
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH BEGINNING OF YEAR	—	260	26	—	286
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH END OF YEAR	$ 154	$ 152	$ 30	$ —	$ 336

**Condensed Consolidating Statement of Cash Flows
For the Year Ended January 28, 2017**

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ 244	$ (2,137)	$ 820	$ (308)	$ (1,381)
Proceeds from sales of property and investments	—	273	113	—	386
Purchases of property and equipment	—	(133)	(9)	—	(142)
Net investing with Affiliates	(239)	—	(627)	866	—
Net cash provided by (used in) investing activities	(239)	140	(523)	866	244
Proceeds from debt issuances	—	2,028	—	—	2,028
Repayments of long-term debt	—	(65)	(1)	—	(66)
Decrease in short-term borrowings, primarily 90 days or less	—	(797)	—	—	(797)
Proceeds from sale-leaseback financing	—	71	—	—	71
Debt issuance costs	(5)	(46)	—	—	(51)
Intercompany dividend	—	—	(308)	308	—
Net borrowing with Affiliates	—	866	—	(866)	—
Net cash provided by (used in) financing activities	(5)	2,057	(309)	(558)	1,185
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	—	60	(12)	—	48
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH BEGINNING OF YEAR	—	200	38	—	238
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH END OF YEAR	$ —	$ 260	$ 26	$ —	$ 286

SEARS HOLDINGS CORPORATION

Notes to Consolidated Financial Statements—(Continued)

Condensed Consolidating Statement of Cash Flows
For the Year Ended January 30, 2016

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ 395	$ (3,021)	$ 938	$ (479)	$ (2,167)
Proceeds from sales of property and investments	—	2,725	5	—	2,730
Purchases of property and equipment	—	(202)	(9)	—	(211)
Net investing with Affiliates	(395)	—	(446)	841	—
Net cash provided by (used in) investing activities	(395)	2,523	(450)	841	2,519
Repayments of long-term debt	—	(1,403)	(2)	—	(1,405)
Increase in short-term borrowings, primarily 90 days or less	—	583	—	—	583
Proceeds from sale-leaseback financing	—	508	—	—	508
Debt issuance costs	—	(50)	—	—	(50)
Intercompany dividend	—		(479)	479	—
Net borrowing with Affiliates	—	841	—	(841)	—
Net cash provided by (used in) financing activities	—	479	(481)	(362)	(364)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	—	(19)	7	—	(12)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH BEGINNING OF YEAR	—	219	31	—	250
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH END OF YEAR	$ —	$ 200	$ 38	$ —	$ 238

Sears Holdings Corporation
Schedule II-Valuation and Qualifying Accounts
Years 2017, 2016 and 2015

millions	Balance at beginning of period	Additions charged to costs and expenses	(Deductions)	Balance at end of period
Allowance for Doubtful Accounts[1]:				
2017	$ 37	$ 7	$ (9)	$ 35
2016	34	9	(6)	37
2015	25	10	(1)	34
Allowance for Deferred Tax Assets[2]:				
2017	$ 5,519	$ 86	$ (1,418)	$ 4,187
2016	4,757	1,000	(238)	5,519
2015	4,478	603	(324)	4,757

(1) Charges to the account are for the purposes for which the reserves were created.

(2) In 2017, the deferred tax assets and liabilities, along with the valuation allowance, decreased due to the reduction in the corporate income tax rate from 35% to 21% pursuant to the Tax Act. In addition, the pension liability and other federal and state deferred tax assets decreased during the year.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Sears Holdings Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting at February 3, 2018. In making its assessment, management used the criteria set forth in the *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The assessment included the documentation and understanding of the Company's internal control over financial reporting. Management evaluated the design effectiveness and tested the operating effectiveness of internal controls over financial reporting to form its conclusion.

Based on this evaluation, management concluded that, at February 3, 2018, the Company's internal control over financial reporting is effective to provide reasonable assurance that the Company's financial statements are fairly presented in conformity with generally accepted accounting principles.

Deloitte & Touche LLP, independent registered public accounting firm, has reported on the effectiveness of the Company's internal control over financial reporting at February 3, 2018, as stated in their report included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Sears Holdings Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Sears Holdings Corporation and subsidiaries (the "Company") as of February 3, 2018 and January 28, 2017, the related consolidated statements of operations, comprehensive income (loss), deficit, and cash flows, for each of the three years in the period ended February 3, 2018, and the related notes and the schedule listed in the Index at Item 8 (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of February 3, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of February 3, 2018 and January 28, 2017, and the results of its operations and its cash flows for each of the three years in the period ended February 3, 2018, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 3, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made

only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP
Chicago, Illinois
March 23, 2018

We have served as the Company's auditor since 2005.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Our management, with the participation of our principal executive and principal financial officers, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this Annual Report on Form 10-K (the "Evaluation Date"). Based on this evaluation, the principal executive and principal financial officers concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

In addition, based on that evaluation, no changes in our internal control over financial reporting have occurred during our last quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's annual report on internal control over financial reporting and the report of our independent registered public accounting firm appears in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this Item 10 with respect to members of our Board of Directors and our Audit Committee will be included under the headings "Election of Directors," "Election of Directors - Committees of the Board of Directors," and "Corporate Governance - Director Independence" of our definitive proxy statement for our annual meeting of stockholders to be held on May 9, 2018 (the "2018 Proxy Statement") and is incorporated herein by reference. Information required by this Item 10 with respect to Section 16(a) beneficial ownership reporting compliance will be included under the heading "Other Information - Section 16(a) Beneficial Ownership Reporting Compliance" of the 2018 Proxy Statement and is incorporated herein by reference.

The information required by this Item 10 regarding the Company's executive officers is set forth under the heading Executive Officers of the Registrant in Part I of this Annual Report on Form 10-K and is incorporated herein by reference.

Holdings has adopted a Code of Conduct, which applies to all employees, including our principal executive officer, principal financial officer and principal accounting officer, and a Code of Conduct for its Board of Directors. Directors who are also officers of Holdings are subject to both codes of conduct. Each code of conduct is a code of ethics as defined in Item 406 of SEC Regulation S-K. The codes of conduct are available in the "Investors - Corporate Governance" section of our website at *www.searsholdings.com.* Any amendment to, or waiver from, a provision of the codes of conduct will be posted to the above-referenced website.

There were no material changes to the process by which stockholders may recommend nominees to the Board of Directors during the last year.

Item 11. Executive Compensation

Information regarding named executive officer and director compensation will be included under the headings "Executive Compensation," "Compensation of Directors," and "Compensation Committee Report" of the 2018 Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management will be included under the heading "Amount and Nature of Beneficial Ownership" of the 2018 Proxy Statement and is incorporated herein by reference.

See also Equity Compensation Plan Information in Item 5 of this Report for a discussion of securities authorized for issuance under equity compensation plans.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and related transactions and director independence will be included under the headings "Certain Relationships and Transactions," "Review and Approval of Transactions with Related Persons" and "Corporate Governance" of the 2018 Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information regarding principal accountant fees and services will be included under the heading "Independent Registered Public Accounting Firm Fees" of the 2018 Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this report:

1. *Financial Statements*

Financial statements filed as part of this Annual Report on Form 10-K are listed under Item 8.

2. *Financial Statement Schedule*

The financial statement schedule filed as part of this Annual Report on Form 10-K is listed under Item 8.

The separate financial statements and summarized financial information of majority-owned subsidiaries not consolidated and of 50% or less owned persons have been omitted because they are not required pursuant to conditions set forth in Rules 3-09 and 1-02(w) of Regulation S-X.

All other schedules have been omitted because they are not required under the instructions contained in Regulation S-X because the information called for is contained in the financial statements and notes thereto.

(b) *Exhibits*

An "Exhibit Index" has been filed as part of this Report beginning on Page E-1 and is incorporated herein by this reference.

Certain of the agreements incorporated by reference into this report contain representations and warranties and other agreements and undertakings by us and third parties. These representations and warranties, agreements and undertakings have been made as of specific dates, may be subject to important qualifications and limitations agreed to by the parties to the agreement in connection with negotiating the terms of the agreement, and have been included in the agreement for the purpose of allocating risk between the parties to the agreement rather than to establish matters as facts. Any such representations and warranties, agreements, and undertakings have been made solely for the benefit of the parties to the agreement and should not be relied upon by any other person.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SEARS HOLDINGS CORPORATION

By: /S/ ROBERT A. RIECKER
Name: **Robert A. Riecker**

Title: ***Chief Financial Officer***
Date: March 23, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities stated and on the dates indicated.

/S/ EDWARD S. LAMPERT **Edward S. Lampert**	Director, Chairman of the Board of Directors, and Chief Executive Officer (principal executive officer)	March 23, 2018
/S/ ROBERT A. RIECKER **Robert A. Riecker**	Chief Financial Officer (principal financial officer and principal accounting officer)	March 23, 2018
/S/ PAUL G. DEPODESTA **Paul G. DePodesta**	Director	March 23, 2018
/S/ KUNAL S. KAMLANI **Kunal S. Kamlani**	Director	March 23, 2018
/S/ WILLIAM C. KUNKLER, III **William C. Kunkler, III**	Director	March 23, 2018
/S/ ANN N. REESE **Ann N. Reese**	Director	March 23, 2018
/S/ THOMAS J. TISCH **Thomas J. Tisch**	Director	March 23, 2018

EXHIBIT INDEX

2.1	Purchase and Sale Agreement, dated as of January 5, 2017, by and between Sears Holdings Corporation and Stanley Black & Decker, Inc. (incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K, dated January 5, 2017, filed on January 10, 2017 (File No. 001-36693)).
2.2	First Amendment to Purchase and Sale Agreement, dated April 13, 2017, by and between Sears Holdings Corporation and Stanley Black & Decker, Inc. (incorporated by reference to Exhibit 10.6 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 29, 2017 (File No. 001-36693)).
2.3	Second Amendment to Purchase and Sale Agreement, dated July 28, 2017, by and between Sears Holdings Corporation and Stanley Black & Decker (incorporated by reference to Exhibit 2.1 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended July 29, 2017 (File No. 001-36693)).
3.1	Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K, dated March 24, 2005, filed on March 24, 2005 (File No. 000-51217)).
3.2	Amended and Restated By-Laws (incorporated by reference to Exhibit 3.2 to Registrant's Current Report on Form 8-K, dated January 22, 2014, filed on January 24, 2014 (File No. 000-51217)).
4.1	Registrant hereby agrees to furnish to the Commission, upon request, the instruments defining the rights of holders of each issue of long-term debt of Registrant and its consolidated subsidiaries.
4.2	Indenture, dated as of October 12, 2010, among Sears Holdings Corporation, the guarantors party thereto and Wells Fargo Bank, National Association, as Trustee and Collateral Agent (incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K, dated October 12, 2010, filed on October 15, 2010 (File No. 000-51217)).
4.3	Fourth Supplemental Indenture, dated as of January 9, 2018, among Sears Holdings Corporation, the guarantors party thereto and Wilmington Trust, National Association, as successor trustee and collateral agent (incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K, dated January 4, 2018, filed January 10, 2018 (File No. 001-36693)).
4.4	Fifth Supplemental Indenture, dated as of March 20, 2018, among Sears Holdings Corporation, the guarantors party thereto and Wilmington Trust, National Association, as successor trustee and collateral agent (incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K, dated March 20, 2018, filed March 23, 2018 (File No. 001-36693))
4.5	Indenture, dated as of March 20, 2018, by and among Sears Holdings Corporation, the guarantors party thereto and Computershare Trust Company, N.A. (including form of note) (incorporated by reference to Exhibit 4.2 to Registrant's Current Report on Form 8-K, dated March 20, 2018, filed March 23, 2018 (File No. 001-36693)).
4.6	Amended and Restated Security Agreement, dated as of March 20, 2018, among Sears Holdings Corporation, the guarantors party thereto and National Association, as Collateral Agent (incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K, dated March 20, 2018, filed on March 23, 2018 (File No. 001-36693)).
4.7	Second Amended and Restated Intercreditor Agreement, dated as of March 20, 2018, by and among Bank of America, N.A. and Wells Fargo Bank, National Association as ABL Agents, and Wilmington Trust, National Association, as trustee (incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K, dated March 20, 2018, filed on March 23, 2018 (File No. 001-36693)).
4.8	Registration Rights Agreement, dated as of October 12, 2010, by and among Sears Holdings Corporation and the guarantors party thereto and Banc of America Securities LLC (incorporated by reference to Exhibit 4.4 to Registrant's Current Report on Form 8-K, dated October 12, 2010, filed on October 15, 2010 (File No. 000-51217)).
4.90	Indenture, dated as of November 21, 2014, by and between Sears Holdings Corporation and Computershare Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K, dated November 21, 2014, filed on November 21, 2014 (File No. 001-36693)).

4.10 First Supplemental Indenture, dated as of November 21, 2014, by and between Sears Holdings Corporation and Computershare Trust Company, N.A., as Trustee (including form of note) (incorporated by reference to Exhibit 4.2 to Registrant's Current Report on Form 8-K, dated November 21, 2014, filed on November 21, 2014 (File No. 001-36693)).

4.11 Second Supplemental Indenture, dated as of March 20, 2018, by and by and between Sears Holdings Corporation and Computershare Trust Company, N.A., as Trustee (including form of note) (incorporated by reference to Exhibit 4.4 to Registrant's Current Report on Form 8-K, dated March 20, 2018, filed on March 23, 2018 (File No. 001-36693)).

4.12 Warrant Agreement, dated as of November 21, 2014, by and between Sears Holdings Corporation, Computershare Inc. and Computershare Trust Company, N.A., as Warrant Agent (including form of warrant certificate) (incorporated by reference to Exhibit 4.3 to Registrant's Current Report on Form 8-K, dated November 21, 2014, filed on November 21, 2014 (File No. 001-36693)).

10.1 Guarantee executed by Sears, Roebuck and Co. under the Indenture, dated as of May 15, 1995, between Sears Roebuck Acceptance Corp. and JP Morgan Chase Bank (successor to The Chase Manhattan Bank, N.A.), as supplemented by the First Supplemental Indenture, dated as of November 3, 2003 (incorporated by reference to Exhibit 4(g) to Sears Roebuck Acceptance Corp.'s Quarterly Report on Form 10-Q for the fiscal quarter ended September 27, 2003 (File No. 001-04040)).

10.2 Guarantee executed by Sears, Roebuck and Co. under the Indenture, dated as of October 1, 2002, between Sears Roebuck Acceptance Corp. and BNY Midwest Trust Company, as supplemented by the First Supplemental Indenture, dated as of November 3, 2003 (incorporated by reference to Exhibit 4(h) to Sears Roebuck Acceptance Corp.'s Quarterly Report on Form 10-Q for the fiscal quarter ended September 27, 2003 (File No. 001-04040)).

10.3 Guarantee, dated as of November 3, 2003, by Sears, Roebuck and Co. of the commercial paper master notes of Sears Roebuck Acceptance Corp. (incorporated by reference to Exhibit 10.38 to Sears, Roebuck and Co.'s Annual Report on Form 10-K for the fiscal year ended January 3, 2004 (File No. 001-00416)).

10.4 Third Amended and Restated Credit Agreement, dated as of July 21, 2015, between Sears Holdings Corporation, Sears Roebuck Acceptance Corp. and Kmart Corporation, the lenders party thereto, and Bank of America, N.A., as agent (incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended August 1, 2015 (File No. 001-36693))(1).

10.5 First Amendment to Third Amended and Restated Credit Agreement, dated April 8, 2016, by and among Sears Holdings Corporation, Sears Roebuck Acceptance Corp., Kmart Corporation, the lenders party thereto and Bank of America, N.A., as agent (incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K, dated April 8, 2016, filed on April 12, 2016 (File No. 001-36693)).

10.6 Second Amendment to Third Amended and Restated Credit Agreement, dated February 10, 2017, by and among Sears Holdings Corporation, Sears Roebuck Acceptance Corp., Kmart Corporation, the lenders party thereto and Bank of America, N.A., as agent (incorporated by reference to Exhibit 10.6 to Registrant's Annual Report on Form 10-K for the fiscal year ended January 28, 2017 (File No. 001-36693)).

10.7 Third Amendment to Third Amended and Restated Credit Agreement, dated as of December 12, 2017, among Sears Holdings Corporation, Sears Roebuck Acceptance Corp., Kmart Corporation, the lenders party thereto and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated December 12, 2017, filed December 12, 2017 (File No. 001-36693)).

10.8 Fourth Amendment to Third Amended and Restated Credit Agreement, dated as of February 7, 2018, among Sears Holdings Corporation, Sears Roebuck Acceptance Corp. and Kmart Corporation, as borrowers, the lenders party thereto, the issuing lenders party thereto, Bank of America, N.A., as administrative agent and collateral agent, and Wells Fargo Bank, National Association, as co-collateral agent (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated February 7, 2018, filed February 13, 2018 (File No. 001-36693)).

10.9 Confirmation, Ratification and Amendment of Ancillary Loan Documents, dated April 8, 2016, by and among Sears Holdings Corporation, Sears Roebuck Acceptance Corp., Kmart Corporation, certain of their respective subsidiaries and Bank of America, N.A., as administrative agent for its own benefit and the benefit of the other Credit Parties (as defined in the amendment to the Credit Agreement) (incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K, dated April 8, 2016, filed on April 12, 2016 (File No. 001-36693)).

10.10 Third Amended and Restated Guarantee and Collateral Agreement, dated as of July 21, 2015, among Sears Holdings Corporation, Sears, Roebuck and Co., Sears Roebuck Acceptance Corp., Kmart Holding Corporation, Kmart Corporation and certain of their respective subsidiaries, as Grantors, and Bank of America, N.A., Wells Fargo Bank, National Association and General Electric Capital Corporation, as Co-Collateral Agents (incorporated by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended August 1, 2015 (File No. 001-36693)).

10.11 Loan Agreement, dated as of September 15, 2014, by and between Sears, Roebuck and Co., Sears Development Co., Kmart Corporation, JPP II, LLC and JPP, LLC (incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended November 1, 2014 (File No. 001-36693)).

10.12 Guaranty, dated as of September 15, 2014, by and between Sears Holdings Corporation, JPP II, LLC and JPP, LLC (incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended November 1, 2014 (File No. 001-36693)).

10.13 Amendment to Loan Agreement, dated as of February 25, 2015, by and between JPP II, LLC, JPP, LLC, Sears Roebuck and Co., Sears Development Co. and Kmart Corporation (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated February 26, 2015, filed on February 26, 2015 (File No. 001-36693)).

10.14 Amended and Restated Program Agreement, dated as of July 15, 2003, amended and restated as of November 3, 2003, by and between Sears, Roebuck and Co., Sears Intellectual Property Management Company and Citibank (USA) N.A. (incorporated by reference to Exhibit 10(a) to Sears, Roebuck and Co.'s Quarterly Report on Form 10-Q for the fiscal quarter ended September 27, 2003 (File No. 001-00416)).

10.15 Terms Sheet For Revision of Program Agreement Between Sears, Roebuck and Co. and Citibank USA, N.A., dated April 29, 2005 (incorporated by reference to Exhibit 10.40 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2005 (File No. 000-51217)).

10.16 Sears Holdings Corporation Director Compensation Program, as amended (incorporated by reference to Exhibit 10.5 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended May 1, 2010 (File No. 000-51217)).**

10.17 Sears Holdings Corporation 2013 Stock Plan (incorporated by reference to Appendix A to Registrant's Proxy Statement dated March 28, 2013 (File No. 000-51217)).**

10.18 Sears Holdings Corporation Amended and Restated Umbrella Incentive Program (incorporated by reference to Appendix C to Registrant's Proxy Statement dated March 28, 2013 (File No. 000-51217)).**

10.19 Amendment to the Performance Measures under the Amended and Restated Sears Holdings Corporation Umbrella Incentive Program (incorporated by reference to Appendix B to Registrant's Proxy Statement dated March 28, 2013 (File No. 000-51217)).**

10.20 Form of Sears Holdings Corporation Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended July 30, 2011 (File No. 000-51217)).**

10.21 Form of Sears Holdings Corporation Restricted Stock Award Agreement: Terms and Conditions (incorporated by reference to Exhibit 10.17 to Registrant's Annual Report on Form 10-K for the fiscal year ended February 1, 2014 (File No. 000-51217)).**

10.22 Form of Sears Holdings Corporation Restricted Stock Unit Award Agreement: Terms and Conditions (incorporated by reference to Exhibit 10.18 to Registrant's Annual Report on Form 10-K for the fiscal year ended February 1, 2014 (File No. 000-51217)).**

10.23	Form of Cash Right - Addendum to Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.17 to Registrant's Annual Report on Form 10-K for the fiscal year ended January 28, 2012 (File No. 000-51217)).**
10.24	Form of Cash Award - Addendum to Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated September 28, 2012, filed on September 28, 2012 (File No. 000-51217)).**
10.25	Form of Cash Award - Addendum to Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated November 30, 2012, filed on November 30, 2012 (File No. 000-51217)).**
10.26	Sears Holdings Corporation Long-Term Incentive Program, effective April 27, 2011 (incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2011 (File No. 000-51217)).**
10.27	Sears Holdings Corporation Cash Long-Term Incentive Plan (Amended and Restated Effective April 10, 2015) (incorporated by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended May 2, 2015 (File No. 001-36693)).**
10.28	Sears Holdings Corporation Annual Incentive Plan (Amended and Restated Effective April 10, 2015) (incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended May 2, 2015 (File No. 001-36693)).**
10.29	2015 Additional Definitions under Sears Holdings Corporation Annual Incentive Plan (incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended May 2, 2015 (File No. 001-36693)).**
10.30	2013 Additional Definitions under Sears Holdings Corporation Long-Term Incentive Program (incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K, dated February 12, 2013, filed on February 19, 2013 (File No. 000-51217)).**
10.31	2014 Additional Definitions under Sears Holdings Corporation Long-Term Incentive Program (incorporated by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended May 3, 2014 (File No. 000-51217)).**
10.32	2015 Additional Definitions under Sears Holdings Corporation Long-Term Incentive Program (incorporated by reference to Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended May 2, 2015 (File No. 001-36693)).**
10.33	Form of LTIP Award Agreement (incorporated by reference to Exhibit 10.32 to Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 2015 (File No. 001-36693).**
10.34	Form of Cash Award - Addendum to Restricted Stock Award(s) (Lands' End Make-Whole) (incorporated by reference to Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended May 3, 2014 (File No. 000-51217)).**
10.35	Form of Cash Award - Addendum to Restricted Stock Unit Award(s) (Lands' End Make-Whole) (incorporated by reference to Exhibit 10.5 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended May 3, 2014 (File No. 000-51217)).**
10.36	Form of Cash Award - Addendum to Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated October 22, 2014, filed on October 22, 2014 (File No. 001-36693)).**
10.37	Form of Cash Right - Addendum to Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated November 7, 2014, filed on November 7, 2014 (File No. 001-36693)).**
10.38	Form of Cash Right - Addendum to Restricted Stock Award(s) and Restricted Stock Unit Awards (Seritage Make-Whole) (incorporated by reference to Exhibit 10.36 to Registrant's Annual Report on Form 10-K for the fiscal year ended January 30, 2016 (File No. 001-36693).**

10.39	Form of Executive Severance Agreement (incorporated by reference to Exhibit 10.29 to Registrant's Annual Report on Form 10-K for the fiscal year ended February 1, 2014 (File No. 000-51217)).**
10.40	Form of letter from Registrant to Edward S. Lampert relating to employment dated March 18, 2013 (incorporated by reference to Exhibit 10.30 to Registrant's Annual Report on Form 10-K for the fiscal year ended February 2, 2013 (File No. 000-51217)).**
10.41	Addendum, dated as of April 21, 2014, to letter from Registrant to Edward S. Lampert relating to employment dated March 18, 2013 (Lands' End Make-Whole) (incorporated by reference to Exhibit 10.6 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended May 3, 2014 (File No. 000-51217)).**
10.42	Letter Agreement, dated January 28, 2016, by and between the Company and Edward S. Lampert (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated January 28, 2016, filed on February 3, 2016 (File No. 001-36693)).**
10.44	Letter from Registrant to Girish Lakshman relating to employment dated June 11, 2015 (incorporated by reference to Exhibit 10.42 to Registrant's Annual Report on Form 10-K for the fiscal year ended January 30, 2016 (File No. 001-36693)).**
10.45	Letter from Registrant to Stephan Zoll relating to employment dated March 23, 2016 (incorporated by reference to Exhibit 10.46 to Registrant's Annual Report on Form 10-K for the fiscal year ended January 28, 2017 (File No. 001-36693)).**
10.46	Executive Severance Agreement, dated March 24, 2016, by and between the Company and Stephan Zoll (incorporated by reference to Exhibit 10.47 to Registrant's Annual Report on Form 10-K for the fiscal year ended January 28, 2017 (File No. 001-36693)).**
10.47	Letter from Registrant to Jason M. Hollar relating to employment dated as of September 18, 2014 (incorporated by reference to Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended October 29, 2016 (File No. 001-36693)).**
10.48	Letter from Registrant to Jason M. Hollar relating to employment dated as of October 13, 2016 (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated October 13, 2016, filed on October 14, 2016 (File No. 001-36693)).**
10.49	Letter from Registrant to Robert A. Riecker, dated as of August 27, 2015 (incorporated by reference to Exhibit 10.12 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 29, 2017 (File No. 001-36693)).**
10.50	Special Retention Award Agreement, dated August 27, 2015, by and between Sears Holdings Corporation and Robert A. Riecker (incorporated by reference to Exhibit 10.13 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 29, 2017 (File No. 001-36693)).**
10.51	Letter from Registrant to Robert A. Riecker, dated as of August 15, 2016 (incorporated by reference to Exhibit 10.14 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 29, 2017 (File No. 001-36693)).**
10.52	Letter from Registrant to Robert A. Riecker, dated as of October 13, 2016 (incorporated by reference to Exhibit 10.15 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 29, 2017 (File No. 001-36693)).**
10.53	Letter from Registrant to Robert A. Riecker, dated as of April 21, 2017 (incorporated by reference to Exhibit 10.16 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 29, 2017 (File No. 001-36693)).**
*10.54	Letter from Registrant to Perry D. Schwartz, dated as of August 15, 2016.**
*10.55	Letter from Registrant to Perry D. Schwartz, dated as of January 31, 2017. **
*10.56	Letter from Registrant to Perry D. Schwartz, dated as of June 21, 2017. **
*10.57	Letter from Registrant to Robert Naedele, dated as of January 19, 2017.**

*10.58 Letter from Registrant to Leena Munjal, dated as of January 29, 2014.**

*10.59 Letter from Registrant to Leena Munjal, dated as of January 8, 2018.**

*10.60 Special Retention Award Agreement, dated January 8, 2018, by and between Sears Holdings Corporation and Leena Munjal.**

10.61 Master Lease by and among Seritage SRC Finance LLC, Seritage KMT Finance LLC, Kmart Operations, LLC, and Sears Operations, LLC, dated as of July 7, 2015 (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated July 7, 2015, filed on July 13, 2015 (File No. 001-36693)).

10.62 Pension Plan Protection and Forbearance Agreement, dated as of March 18, 2016, by and between Sears Holdings Corporation, certain of its subsidiaries and Pension Benefit Guaranty Corporation (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated March 18, 2016, filed on March 24, 2016 (File No. 001-36693).(1)

10.63 Consent, Waiver and Amendment, dated as of March 8, 2017, by and between Sears Holdings Corporation, certain of its subsidiaries and Pension Benefit Guaranty Corporation (incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K, dated March 8, 2017, filed March 9, 2017 (File No. 001-36693)).

10.64 Amendment No. 1 to Consent, Waiver and Amendment, dated as of June 29, 2017, among Sears Holdings Corporation, the subsidiaries of Sears Holdings Corporation party thereto and Pension Benefit Guaranty Corporation (incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended July 29, 2017 (File No. 001-36693)).

10.65 REMIC Amendment to PPPFA, Craftsman Consent and Other Transaction Documents, dated as of November 7, 2017, by and among Sears Holdings Corporation, certain of its subsidiaries and Pension Benefit Guaranty Corporation (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated November 7, 2017, filed November 14, 2017 (File No. 001-36693)).

10.66 Loan Agreement, dated April 8, 2016, by and among JPP, LLC, JPP II, LLC, Cascade Investment, L.L.C., Sears, Roebuck and Co., Sears Development Co., Innovel Solutions, Inc., Big Beaver of Florida Development, LLC and Kmart Corporation (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated April 8, 2016, filed on April 12, 2016 (File No. 001-36693)).

10.67 Amended and Restated Loan Agreement, dated as of May 22, 2017, between Sears, Roebuck and Co., Innovel Solutions, Inc., Big Beaver of Florida Development, LLC and Kmart Corporation, as Borrowers, and JPP, LLC, JPP II, LLC and Cascade Investment, L.L.C., as Initial Lenders (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated May 22, 2017, filed on May 24, 2017 (File No. 001-36693)).

10.68 Amendment, dated July 3, 2017, to Amended and Restated Loan Agreement, dated as of May 22, 2017, between Sears, Roebuck and Co., Innovel Solutions, Inc., Big Beaver of Florida Development, LLC and Kmart Corporation, as Borrowers, and JPP, LLC, JPP II, LLC and Cascade Investment, L.L.C., as Initial Lenders (incorporated by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended July 29, 2017 (File No. 001-36693)).

10.69 Second Amendment to Amended and Restated Loan Agreement, dated as of October 25, 2017, among Sears Roebuck and Co., Sears Development Co., Innovel Solutions Inc., Big Beaver of Florida Development, LLC and Kmart Corporation, collectively as borrower, and JPP, LLC, JPP II, LLC and Cascade Investment, L.L.C. collectively as initial lenders (incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K, dated October 25, 2017, filed on October 30, 2017 (File No. 001-36693)).

10.70 Second Lien Credit Agreement, dated as of September 1, 2016, between Sears Holdings Corporation, Sears Roebuck Acceptance Corp. and Kmart Corporation, the lenders party thereto, and JPP, LLC, as administrative agent and collateral administrator (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated September 1, 2016, filed on September 2, 2016 (File No. 001-36693)).

10.71	First Amendment to Second Lien Credit Agreement, dated as of July 7, 2017, among Sears Holdings Corporation, Sears Roebuck Acceptance Corp. and Kmart Corporation, the lenders party thereto, and JPP, LLC, as administrative agent and collateral administrator (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated July 7, 2017, filed on July 7, 2017 (File No. 001-36693)).
10.72	Second Amendment to Second Lien Credit Agreement, dated as of January 9, 2018, among Sears Holdings Corporation, Sears Roebuck Acceptance Corp. and Kmart Corporation, the guarantors party thereto, the lenders party thereto, and JPP, LLC, as administrative agent and collateral administrator (incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K, dated January 4, 2018, filed January 10, 2018 (File No. 001-36693)).
10.73	Third Amendment to Second Lien Credit Agreement, dated as of February 7, 2018, among Sears Holdings Corporation, Sears Roebuck Acceptance Corp. and Kmart Corporation, as borrowers, the subsidiaries of Sears Holdings Corporation party thereto, the lenders party thereto, and JPP, LLC, as administrative and collateral administrator (incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K, dated February 7, 2018, filed February 13, 2018 (File No. 001-36693)).
10.74	Fourth Amendment to Second Lien Credit Agreement, dated as of March 20, 2018, among Sears Holdings Corporation, Sears Roebuck Acceptance Corp. and Kmart Corporation, as borrowers, the subsidiaries of Sears Holdings Corporation party thereto, the lenders party thereto, and JPP, LLC, as administrative and collateral administrator (incorporated by reference to Exhibit 10.1 to Registrant’s Current Report on Form 8-K, dated March 20, 2018, filed on March 23, 2018 (File No. 001-36693)).
10.75	Letter of Credit and Reimbursement Agreement, dated as of December 28, 2016, among Sears Holdings Corporation, Sears Roebuck Acceptance Corp., Kmart Corporation, the financial institutions party thereto from time to time as L/C Lenders, and Citibank, N.A., as Administrative Agent and Issuing Bank (incorporated by reference to Exhibit 10.1 to Registrant’s Current Report on Form 8-K, dated December 28, 2016, filed on December 30, 2016 (File No. 001-36693)).
10.76	First Amendment dated March 2, 2017, to Letter of Credit and Reimbursement Agreement, dated as of December 28, 2016, among Sears Holdings Corporation, Sears Roebuck Acceptance Corp., Kmart Corporation, the financial institutions party thereto from time to time as L/C Lenders, and Citibank, N.A., as Administrative Agent and Issuing Bank (incorporated by reference to Exhibit 10.60 to Registrant’s Annual Report on Form 10-K for the fiscal year ended January 28, 2017 (File No. 001-36693)).
10.77	Second Amendment, dated August 1, 2017, to Letter of Credit and Reimbursement Agreement, dated as of December 28, 2016, among Sears Holdings Corporation, Sears Roebuck Acceptance Corp., Kmart Corporation, the financial institutions party thereto from time to time as L/C Lenders, and Citibank, N.A., as Administrative Agent and Issuing Bank (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated August 1, 2017, filed on August 3, 2017 (File No. 001-36693)).
10.78	Third Amendment, dated August 9, 2017, to Letter of Credit and Reimbursement Agreement, dated as of December 28, 2016, among Sears Holdings Corporation, Sears Roebuck Acceptance Corp., Kmart Corporation, the financial institutions party thereto from time to time as L/C Lenders, and Citibank, N.A., as Administrative Agent and Issuing Bank (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated August 9, 2017, filed on August 10, 2017 (File No. 001-36693)).
*10.79	Fourth Amendment, dated December 13, 2017, to Letter of Credit and Reimbursement Agreement, dated as of December 28, 2016, among Sears Holdings Corporation, Sears Roebuck Acceptance Corp., Kmart Corporation, the financial institutions party thereto from time to time as L/C Lenders, and Citibank, N.A., as Administrative Agent and Issuing Bank.
10.80	Loan Agreement, dated as of January 3, 2017, among Sears Roebuck and Co., Kmart Stores of Illinois LLC, Kmart of Washington LLC and Kmart Corporation, collectively as borrower, and JPP, LLC and JPP II, LLC, collectively as initial lender (incorporated by reference to Exhibit 10.1 to Registrant’s Current Report on Form 8-K, dated January 3, 2017, filed on January 4, 2017 (File No. 001-36693)).

10.81 Omnibus Amendment, dated as of January 12, 2017, to Loan Documents and Request for Advance to Loan Agreement, dated as of January 3, 2017 among Sears Roebuck and Co., Kmart Stores of Illinois LLC, Kmart of Washington LLC and Kmart Corporation, collectively as borrower, and JPP, LLC and JPP II, LLC, collectively as initial lender (incorporated by reference to Exhibit 10.59 to Registrant's Annual Report on Form 10-K for the fiscal year ended January 28, 2017 (File No. 001-36693)).

10.82 Amended and Restated Loan Agreement, dated as of October 4, 2017, among Sears Roebuck and Co., Kmart Stores of Illinois LLC, Kmart of Washington LLC, Kmart Corporation, SHC Desert Springs, LLC, Innovel Solutions, Inc., Sears Holdings Management Corporation, Maxserv, Inc. and Troy Coolidge No. 13, LLC collectively as borrower, and JPP, LLC and JPP II, LLC, collectively as initial lender (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated October 4, 2017, filed on October 5, 2017 (File No. 001-36693)).

10.83 Second Amended and Restated Loan Agreement, dated as of October 18, 2017, among Sears Roebuck and Co., Kmart Stores of Illinois LLC, Kmart of Washington LLC, Kmart Corporation, SHC Desert Springs, LLC, Innovel Solutions, Inc., Sears Holdings Management Corporation, Maxserv, Inc., Troy Coolidge No. 13, LLC, Sears Development Co. and Big Beaver of Florida Development, LLC, collectively as borrower, and JPP, LLC and JPP II, LLC, collectively as initial lender (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated October 18, 2017, filed on October 19, 2017 (File No. 001-36693)).

10.84 Amendment to Second Amended and Restated Loan Agreement, dated as of October 25, 2017, among Sears Roebuck and Co., Kmart Stores of Illinois LLC, Kmart of Washington LLC, Kmart Corporation, SHC Desert Springs, LLC, Innovel Solutions, Inc., Sears Holdings Management Corporation, Maxserv, Inc., Troy Coolidge No. 13, LLC, Sears Development Co. and Big Beaver of Florida Development, LLC, collectively as borrower, and JPP, LLC and JPP II, LLC, collectively as initial lender (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated October 25, 2017, filed on October 30, 2017 (File No. 001-36693)).

10.85 Second Amendment to Second Amended and Restated Loan Agreement, dated as of March 8, 2018, among Sears Roebuck and Co., Kmart Stores of Illinois LLC, Kmart of Washington LLC, Kmart Corporation, SHC Desert Springs, LLC, Innovel Solutions, Inc., Sears Holdings Management Corporation, Maxserv, Inc. and Troy Coolidge No. 13, LLC collectively as borrower, and JPP, LLC and JPP II, LLC, collectively as initial lender (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated March 8, 2018, filed on March 14, 2018 (File No. 001-36693)).

10.86 Term Loan Credit Agreement, dated as of January 4, 2018, among Sears Holdings Corporation, Sears Roebuck Acceptance Corp. and Kmart Corporation, as borrowers, the subsidiaries of Sears Holdings Corporation party thereto, the lenders party thereto from time to time, and JPP, LLC, as administrative and collateral agent (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated January 4, 2018, filed January 10, 2018 (File No. 001-36693)).

*10.87 Term Increase Amendment No. 1 to the Term Loan Credit Agreement, dated as of January 19, 2018, among Sears Holdings Corporation, Sears Roebuck Acceptance Corp. and Kmart Corporation, as borrowers, the subsidiaries of Sears Holdings Corporation party thereto, the lenders party thereto from time to time, and JPP, LLC, as administrative and collateral agent, each term increase lender and each of the other loan parties party thereto.

10.88 Amendment to Term Loan Credit Agreement, dated as of January 29, 2018, among Sears Holdings Corporation, Sears Roebuck Acceptance Corp. and Kmart Corporation, as borrowers, the subsidiaries of Sears Holdings Corporation party thereto, the lenders and other entities party thereto, and JPP, LLC, as administrative and collateral agent (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated January 29, 2018, filed February 1, 2018 (File No. 001-36693)).

10.89 Third Amendment to Term Loan Credit Agreement, dated as of February 7, 2018, among Sears Holdings Corporation, Sears Roebuck Acceptance Corp. and Kmart Corporation, as borrowers, the subsidiaries of Sears Holdings Corporation party thereto, the lenders party thereto, and JPP, LLC, as administrative agent and collateral administrator (incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K, dated February 7, 2018, filed February 13, 2018 (File No. 001-36693)).

*10.90	Fourth Amendment to Term Loan Credit Agreement dated as of February 26, 2018, among Sears Holdings Corporation, Sears Roebuck Acceptance Corp. and Kmart Corporation, as borrowers, the subsidiaries of Sears Holdings Corporation party thereto, the lenders party thereto from time to time, and JPP, LLC, as administrative agent and collateral administrator.
*10.91	Credit Agreement, dated as of March 14, 2018, among SRC O.P. LLC, SRC Facilities LLC and SR Real Estate (TX), LLC, as the borrowers, the lenders party thereto, UBS AG, Stamford Branch, LLC, as administrative agent, and UBS Securities LLC, as lead arranger and bookrunner.
*10.92	Mezzanine Loan Agreement, dated as of March 14, 2018, among SRC Sparrow 2 LLC, as borrower, JPP, LLC and JPP II, LLC, as lenders, and JPP, LLC, as administrative agent.
10.93	Acquired IP License Agreement, dated as of March 8, 2017, by and between Sears Holdings Corporation and Stanley Black & Decker, Inc. (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated March 8, 2017, filed March 9, 2017 (File No. 001-36693)).
10.94	Letter, dated April 6, 2017, amending Acquired IP License Agreement, dated as of March 8, 2017, by and between Sears Holdings Corporation and Stanley Black & Decker, Inc. (incorporated by reference to Exhibit 10.5 to Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended April 29, 2017 (File No. 001-36693)).
10.95	Fifth Amendment to Third Amended and Restated Credit Agreement, dated as of March 21, 2018, among Sears Holdings Corporation, Sears Roebuck Acceptance Corp. and Kmart Corporation, as borrowers, the lenders party thereto, Bank of America, N.A., as administrative agent, and the other parties thereto (incorporated by reference to Exhibit 10.4 to Registrant's Current Report on Form 8-K, dated March 20, 2018, filed March 23, 2018 (File No. 001-36693)).
10.96	Sixth Amendment to Third Amended and Restated Credit Agreement, dated as of March 21, 2018, among Sears Holdings Corporation, Sears Roebuck Acceptance Corp. and Kmart Corporation, as borrowers, the lenders party thereto, Bank of America, N.A., as administrative agent, and the other parties thereto (incorporated by reference to Exhibit 10.5 to Registrant's Current Report on Form 8-K, dated March 20, 2018, filed March 23, 2018 (File No. 001-36693)).
*12	Computation of ratio of earnings to fixed charges for Registrant and consolidated subsidiaries.
*21	Subsidiaries of the Registrant.
*23	Consent of Deloitte & Touche LLP.
*31.1	Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from the Annual Report on Form 10-K for the fiscal year ended February 3, 2018, formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Statements of Operations for the fiscal years ended February 3, 2018, January 28, 2017 and January 30, 2016; (ii) the Consolidated Statements of Comprehensive Loss for the fiscal years ended February 3, 2018, January 28, 2017 and January 30, 2016; (iii) the Consolidated Balance Sheets at February 3, 2018 and January 28, 2017; (iv) the Consolidated Statements of Cash Flows for the fiscal years ended February 3, 2018, January 28, 2017 and January 30, 2016; (v) the Consolidated Statements of Equity (Deficit) for the fiscal years ended February 3, 2018, January 28, 2017 and January 30, 2016; and (vi) the Notes to Consolidated Financial Statements, tagged as blocks of text and including detailed tags.

* Filed herewith

** A management contract or compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to Item 15(b) of Form 10-K.

(1) Confidential treatment was granted as to omitted portions of this Exhibit. The omitted material has been filed separately with the Securities and Exchange Commission.

Exhibit 15 - MOAC

10-Q 1 shldq22018.htm 10-Q

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED AUGUST 4, 2018**

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 000-51217, 001-36693

SEARS HOLDINGS CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**20-1920798**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**
3333 BEVERLY ROAD, HOFFMAN ESTATES, ILLINOIS	**60179**
(Address of principal executive offices)	**(Zip Code)**

Registrant's Telephone Number, Including Area Code: (847) 286-2500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer (Do not check if a smaller reporting company) ☐ Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of September 7, 2018, the registrant had 108,992,750 common shares, $0.01 par value, outstanding.

Exhibit
15-MOAC

SEARS HOLDINGS CORPORATION
INDEX TO QUARTERLY REPORT ON FORM 10-Q
13 and 26 Weeks Ended August 4, 2018 and July 29, 2017

SEARS HOLDINGS CORPORATION
Condensed Consolidated Statements of Operations
(Unaudited)

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

	13 Weeks Ended		26 Weeks Ended	
millions, except per share data	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
REVENUES				
Merchandise sales	$ 2,428	$ 3,414	$ 4,640	$ 6,743
Services and other[(1)(2)]	754	864	1,433	1,734
Total revenues	3,182	4,278	6,073	8,477
COSTS AND EXPENSES				
Cost of sales, buying and occupancy - merchandise sales[(3)]	2,055	2,815	3,954	5,594
Cost of sales and occupancy - services and other[(1)]	425	491	812	980
Total cost of sales, buying and occupancy	2,480	3,306	4,766	6,574
Selling and administrative	864	1,123	1,770	2,344
Depreciation and amortization	66	83	133	170
Impairment charges	77	5	91	20
Gain on sales of assets	(103)	(380)	(268)	(1,121)
Total costs and expenses	3,384	4,137	6,492	7,987
Operating income (loss)	(202)	141	(419)	490
Interest expense	(188)	(123)	(354)	(251)
Interest and investment income (loss)	2	(12)	3	(14)
Other loss	(139)	(246)	(172)	(292)
Loss before income taxes	(527)	(240)	(942)	(67)
Income tax (expense) benefit	19	(10)	10	62
NET LOSS ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS	$ (508)	$ (250)	$ (932)	$ (5)
NET LOSS PER COMMON SHARE ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS				
Basic loss per share	$ (4.68)	$ (2.33)	$ (8.61)	$ (0.05)
Diluted loss per share	$ (4.68)	$ (2.33)	$ (8.61)	$ (0.05)
Basic weighted average common shares outstanding	108.5	107.3	108.3	107.2
Diluted weighted average common shares outstanding	108.5	107.3	108.3	107.2

(1) Includes merchandise sales to Sears Hometown and Outlet Stores, Inc. ("SHO") of $197 million and $257 million for the 13 weeks ended August 4, 2018 and July 29, 2017, respectively, and $381 million and $511 million for the 26 weeks ended August 4, 2018 and July 29, 2017, respectively. Pursuant to the terms of the separation, merchandise is sold to SHO at cost.

(2) Includes revenue from Lands' End, Inc. ("Lands' End") for retail services and rent for Lands' End Shops at owned Sears locations, participation in the Shop Your Way® program and corporate shared services of $7 million and $12 million for the 13 weeks ended August 4, 2018 and July 29, 2017, respectively, and $16 million and $24 million for the 26 weeks ended August 4, 2018 and July 29, 2017, respectively.

(3) Includes rent expense (consisting of straight-line rent expense offset by amortization of a deferred gain on sale-leaseback) of $13 million and $19 million for the 13 weeks ended August 4, 2018 and July 29, 2017, respectively, and $27 million and $38 million for the 26 weeks ended August 4, 2018 and July 29, 2017, respectively, pursuant to the master lease with Seritage Growth Properties ("Seritage"). Also includes installment expenses of $9 million and $12 million for the 13 weeks ended August 4, 2018 and July 29, 2017, respectively, and $18 million and $24 million for the 26 weeks ended August 4, 2018 and July 29, 2017, respectively.

See accompanying notes.

SEARS HOLDINGS CORPORATION
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

	13 Weeks Ended		26 Weeks Ended	
millions	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net loss	$ (508)	$ (250)	$ (932)	$ (5)
Other comprehensive income				
Pension and postretirement adjustments, net of tax	218	127	254	177
Currency translation adjustments, net of tax	(1)	—	—	1
Total other comprehensive income	217	127	254	178
Comprehensive income (loss) attributable to Holdings' shareholders	$ (291)	$ (123)	$ (678)	$ 173

See accompanying notes.

SEARS HOLDINGS CORPORATION
Condensed Consolidated Balance Sheets
(Unaudited)

millions	August 4, 2018	July 29, 2017	February 3, 2018
ASSETS			
Current assets			
Cash and cash equivalents	$ 193	$ 212	$ 182
Restricted cash	248	230	154
Accounts receivable[(1)]	327	370	343
Merchandise inventories	2,714	3,433	2,798
Prepaid expenses and other current assets[(2)]	386	334	346
Total current assets	3,868	4,579	3,823
Property and equipment (net of accumulated depreciation and amortization of $2,276, $2,676 and $2,381)	1,444	1,969	1,729
Goodwill	269	269	269
Trade names and other intangible assets	1,090	1,249	1,168
Other assets	266	301	284
TOTAL ASSETS	$ 6,937	$ 8,367	$ 7,273
LIABILITIES			
Current liabilities			
Short-term borrowings[(3)]	$ 1,254	$ 546	$ 915
Current portion of long-term debt and capitalized lease obligations[(4)]	196	1,052	968
Merchandise payables	487	670	576
Other current liabilities[(5)]	1,474	1,700	1,575
Unearned revenues	652	704	641
Other taxes	214	302	247
Total current liabilities	4,277	4,974	4,922
Long-term debt and capitalized lease obligations[(6)]	3,504	2,405	2,249
Pension and postretirement benefits	1,164	1,731	1,619
Deferred gain on sale-leaseback	305	455	362
Sale-leaseback financing obligation	347	230	247
Unearned revenues	853	593	539
Other long-term liabilities	770	992	935
Long-term deferred tax liabilities	119	643	126
Total Liabilities	11,339	12,023	10,999
Commitments and contingencies			
DEFICIT			
Total Deficit	(4,402)	(3,656)	(3,726)
TOTAL LIABILITIES AND DEFICIT	$ 6,937	$ 8,367	$ 7,273

(1) Includes $22 million, $25 million and $28 million of net amounts receivable from SHO, and $1 million, $4 million and $1 million of amounts receivable from Seritage at August 4, 2018, July 29, 2017 and February 3, 2018, respectively. Also includes $1 million of net amounts receivable from Lands' End at July 29, 2017 and February 3, 2018.
(2) Includes $6 million prepaid rent to Seritage at both August 4, 2018 and February 3, 2018.
(3) Includes balances held by related parties of $525 million, $245 million and $645 million at August 4, 2018, July 29, 2017 and February 3, 2018, respectively, related to our Line of Credit Loans for all periods presented and also our Incremental Loans at February 3, 2018. See Note 2 for defined terms and Notes 2 and 11 for further information.
(4) Includes balances held by related parties of $131 million and $146 million at July 29, 2017 and February 3, 2018, respectively, related to our 2016 Secured Loan Facility for both periods and also our Old Senior Secured Notes at February 3, 2018. See Note 2 for defined terms and Notes 2 and 11 for further information.
(5) Includes $9 million and $24 million of amounts payable to Seritage at August 4, 2018 and July 29, 2017, respectively.
(6) Includes balances held by related parties of $2.3 billion, $1.6 billion and $1.5 billion at August 4, 2018, July 29, 2017 and February 3, 2018, respectively, related to our Subsidiary Notes, Old Senior Unsecured Notes, Second Lien Term Loan, and 2016 Term Loan for all periods presented, our Consolidated Secured Loan Facility, FILO Loan, Mezzanine Loan, Additional Mezzanine Loans, New Senior Secured Notes and New Senior Unsecured Notes at August 4, 2018, our Term Loan Facility at August 4, 2018 and February 3, 2018, our 2017 Secured Loan Facility at July 29, 2017 and February 3, 2018, and our Old Senior Secured Notes at July 29, 2017. See Note 2 for defined terms and Notes 2 and Note 11 for further information.

See accompanying notes.

SEARS HOLDINGS CORPORATION
Condensed Consolidated Statements of Cash Flows
(Unaudited)

millions	26 Weeks Ended August 4, 2018	26 Weeks Ended July 29, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (932)	$ (5)
Adjustments to reconcile net loss to net cash used in operating activities:		
Deferred tax valuation allowance	—	(200)
Tax benefit resulting from Other Comprehensive Income allocation	(27)	—
Depreciation and amortization	133	170
Impairment charges	91	20
Gain on sales of assets	(268)	(1,121)
Pension and postretirement plan contributions	(343)	(134)
Pension plan settlements	108	200
Payment for insurance transaction	(208)	—
Proceeds from Citibank amendment	425	—
Mark-to-market adjustments of financial instruments	—	17
Amortization of deferred gain on sale-leaseback	(34)	(40)
Amortization of debt issuance costs and accretion of debt discount	64	62
Non-cash PIK interest	37	—
Other	—	(36)
Change in operating assets and liabilities (net of acquisitions and dispositions):		
Deferred income taxes	(8)	99
Merchandise inventories	84	509
Merchandise payables	(89)	(378)
Income and other taxes	(22)	(24)
Other operating assets	65	52
Other operating liabilities	(112)	(329)
Net cash used in operating activities	(1,036)	(1,138)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of property and investments	322	569
Proceeds from Craftsman Sale	—	572
Proceeds from sales of receivables[(1)]	—	293
Purchases of property and equipment	(32)	(41)
Net cash provided by investing activities	290	1,393
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt issuances[(2)]	1,235	330
Repayments of debt[(3)]	(869)	(717)
Increase in short-term borrowings, primarily 90 days or less	389	216
Proceeds from sale-leaseback financing	130	89
Debt issuance costs[(4)]	(34)	(17)
Net cash provided by (used in) financing activities	851	(99)
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	105	156
TOTAL CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR	336	286
TOTAL CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF PERIOD	$ 441	$ 442
Supplemental Cash Flow Data:		
Income taxes paid, net of refunds	$ 12	$ 28
Cash interest paid[(5)]	223	196

Unpaid liability to acquire equipment and software	10	6
PIK interest included within other operating liabilities	11	—

(1) Proceeds in 2017 include $63 million from JPP, LLC and JPP II, LLC, entities affiliated with ESL (as defined in Note 1), for the sale of receivables.

(2) Proceeds in 2018 include $891 million from related parties in connection with the Consolidated Secured Loan Facility, FILO Loan, Mezzanine Loan, Additional Mezzanine Loans, Line of Credit Loans and additional borrowings from the 2017 Secured Loan Facility. Proceeds in 2017 include $245 million from related parties in connection with the Line of Credit Loans. See Notes 2 and 11 for further information.

(3) Repayments in 2018 include $67 million to related parties in connection with the Term Loan Facility, 2017 Secured Loan Facility, Incremental Loans and 2016 Secured Loan Facility. Repayments in 2017 include $183 million to related parties in connection with the 2017 Secured Loan Facility, 2016 Secured Loan Facility and 2016 Term Loan. See Notes 2 and 11 for further information.

(4) Includes fees related to our borrowings of $13 million paid to related parties during the 26 weeks ended August 4, 2018. Includes a one-time extension fee equal to $4 million to JPP, LLC and JPP II, LLC, entities affiliated with ESL (as defined in Note 1) during the 26 weeks ended July 29, 2017. See Note 2 for further information.

(5) Cash interest paid includes $103 million and $82 million interest paid to related parties related to our borrowings during the 26 weeks ended August 4, 2018 and July 29, 2017, respectively. See Notes 2 and 11 for further information.

See accompanying notes.

SEARS HOLDINGS CORPORATION
Condensed Consolidated Statements of Deficit
(Unaudited)

	Deficit Attributable to Holdings' Shareholders						
dollars and shares in millions	Number of Shares	Common Stock	Treasury Stock	Capital in Excess of Par Value	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 28, 2017	107	$ 1	$ (5,891)	$ 9,130	$ (5,519)	$ (1,552)	$ (3,831)
Comprehensive income							
Net loss	—	—	—	—	(5)	—	(5)
Pension and postretirement adjustments, net of tax	—	—	—	—	—	177	177
Currency translation adjustments, net of tax	—	—	—	—	—	1	1
Total Comprehensive Income							173
Stock awards	—	—	27	(28)	—	—	(1)
Associate stock purchase	—	—	3	—	—	—	3
Balance at July 29, 2017	107	$ 1	$ (5,861)	$ 9,102	$ (5,524)	$ (1,374)	$ (3,656)
Balance at February 3, 2018	108	$ 1	$ (5,820)	$ 9,063	$ (5,898)	$ (1,072)	$ (3,726)
Comprehensive loss							
Net loss	—	—	—	—	(932)	—	(932)
Pension and postretirement adjustments, net of tax	—	—	—	—	—	254	254
Currency translation adjustments, net of tax	—	—	—	—	—	—	—
Total Comprehensive Loss							(678)
Stock awards	1	—	97	(103)	—	—	(6)
Associate stock purchase	—	—	8	—	—	—	8
Balance at August 4, 2018	109	$ 1	$ (5,715)	$ 8,960	$ (6,830)	$ (818)	$ (4,402)

See accompanying notes.

NOTE 1—BASIS OF PRESENTATION

Sears Holdings Corporation ("Holdings") is the parent company of Kmart Holding Corporation ("Kmart") and Sears, Roebuck and Co. ("Sears"). Holdings (together with its subsidiaries, "we," "us," "our," or the "Company") was formed as a Delaware corporation in 2004 in connection with the merger of Kmart and Sears (the "Merger"), on March 24, 2005. We are an integrated retailer with 866 full-line and specialty retail stores as of August 4, 2018 in the United States, operating through Kmart and Sears. We operate under two reportable segments: Kmart and Sears Domestic.

These interim unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (which include normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full fiscal year. The retail business is seasonal in nature, and we generate a high proportion of our revenues and operating cash flows during the fourth quarter of our fiscal year, which includes the holiday season. These interim financial statements and related notes should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended February 3, 2018.

Citibank Amendment

In May 2018, the Company entered into an amendment to the program agreement with Citibank, N.A. (the "Citibank Amendment"), pursuant to which Citibank offers Sears proprietary and co-branded credit cards and administers the associated credit card program (the "Program"). The Citibank Amendment provides for a five year extension (through November 2, 2025) of our 15-year co-brand and private label credit card relationship along with long-term marketing arrangements that include ongoing enhancements to the Shop Your Way MasterCard rewards program.

The Citibank Amendment removes Sears' credit cards, other than Sears' proprietary cards, not enrolled in a rewards program or enrolled in the "Thank You" rewards program (the "TY/NR Portfolio") from the Program. Under a separate marketing agreement entered into in conjunction with the Citibank Amendment, the Company will continue to receive payments from Citibank in respect of the TY/NR Portfolio, which payments will be determined substantially consistent with how such payments were determined under the Program prior to the Citibank Amendment through December 31, 2020 and will thereafter be based on total sales for the TY/NR Portfolio. Credit cards in the TY/NR Portfolio will continue to be accepted in Sears' sales channels. The Citibank Amendment provides for the Company to continue to receive payments from Citibank in respect of the remaining card portfolio under the Program, which payments will be determined substantially consistent with how such payments were determined under the Program prior to the Citibank Amendment through December 31, 2020 and will thereafter be based on new account spend and total sales for the credit card portfolio.

The Citibank Amendment removes the Company's right to purchase, or arrange for a third party to purchase, Program-related assets in certain circumstances, including upon termination or expiry of the Program, except that the Company will have such right if it elects to extend the Program through November 2, 2027, subject to the satisfaction of the performance conditions, and the Program continues through such date, or in certain circumstances if Sears terminates the Program Agreement because of an uncured material breach of Citibank’s obligations thereunder. Sears will have no right to purchase the TY/NR Portfolio being removed from the Program.

Pursuant to the Citibank Amendment, Citibank paid Sears $425 million, and Sears funded a reserve for the benefit of Citibank in the amount of $25 million through an irrevocable standby letter of credit from a third party financial institution. The Company accounted for the Citibank Amendment in accordance with accounting standards applicable to revenue from contracts with customers. The Company initially deferred the $425 million received for the Citibank Amendment and will recognize the revenue over the term of the Program as we satisfy the related performance obligation over time. During the 26 weeks ended August 4, 2018, the Company recognized revenues of $14 million, and expects to recognize revenue of $57 million within the next 12 months and $354 million of revenue

thereafter. The Company has accordingly included these amounts within current and long-term unearned revenues, respectively.

Adoption of Accounting Standards Update: *Revenue from Contracts with Customers*

In May 2014, the Financial Accounting Standards Board ("FASB") issued accounting standards updates which replace the current revenue recognition standards. Subsequently, the FASB has also issued accounting standards updates which clarify the guidance. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The updates may be applied retrospectively for each period presented or as a cumulative-effect adjustment at the date of adoption.

The Company adopted the update in the first quarter of 2018 using the full retrospective method, and, therefore, comparative financial statements of prior years have been adjusted to apply the new standard retrospectively. The adoption impacted the accounting for our Shop Your Way® program, revenues from gift cards and merchandise returns. The expense for Shop Your Way points was previously recognized as customers earned points and recorded within cost of sales. The new guidance requires the Company to allocate the transaction price to products and points on a relative standalone selling price basis, deferring the portion of revenue allocated to the points and recognizing a contract liability for unredeemed points. The change in the accounting for the Shop Your Way program reduced revenue, but had no impact to gross margin. The new guidance also changed the timing of recognition of the unredeemed portion of our gift cards, which was previously recognized using the remote method. The new guidance requires application of the proportional method. The Company reports revenues from merchandise sales net of estimated returns. The new guidance requires the Company to record both an asset and a liability for anticipated customer returns.

The Company elected the following practical expedients with respect to accounting standards for revenue from contracts with customers:

- The Company elected not to disclose the aggregate amount of the transaction price allocated to remaining performance obligations for its contracts that are one year or less, as the revenue is expected to be recognized within the next year;
- The Company has applied the accounting guidance using the portfolio approach as we believe that the effects of applying the guidance to the portfolio would not differ materially from applying the guidance to the individual contracts within that portfolio;
- For completed contracts, the Company has elected to not restate contracts that begin and end within the same annual reporting period;
- For completed contracts that have variable consideration, the Company has elected to use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods;
- The Company applied the update retrospectively for each period presented, but for all reporting periods presented before the date of initial application, the Company elected not to disclose the amount of the transaction price allocated to the remaining performance obligations or an explanation of when the entity expects to recognize that amount as revenue;
- For contracts that were modified before the beginning of the earliest reporting period, the Company has elected to not retrospectively restate the contract for those contract modifications and there was no aggregate effect of modifications that occurred before the beginning of the earliest period.

The Company has made an accounting policy election to exclude from the measurement of transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the Company from a customer (sales tax, value added tax, etc.).

The Company has made an accounting policy election to account for shipping and handling activities performed after a customer obtains control of the good as activities to fulfill the promise to transfer the good.

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

The following financial statement line items for the periods presented were affected by the adoption of the new standard. Operating income for the 13- and 26- week periods ended July 29, 2017 also contains the impact of the accounting standards update related to classification of net periodic pension cost, of $246 million and $292 million, respectively. Also, retained deficit as of January 31, 2016 increased from $3,291 million, as originally reported, to $3,310 million as a result of the adoption of the new standard.

Condensed Consolidated Statement of Operations

	13 Weeks Ended July 29, 2017		
millions, except per share data	**As Originally Reported**	**As Adjusted**	**Effect of Adoption of New Standard**
Merchandise sales	$ 3,498	$ 3,414	$ (84)
Services and other	867	864	(3)
Cost of sales, buying and occupancy - merchandise sales	2,902	2,815	(87)
Operating (loss) income	(106)	141	247
Net loss attributable to Holdings' Shareholders	(251)	(250)	1
Basic loss per share	(2.34)	(2.33)	0.01

	26 Weeks Ended July 29, 2017		
millions, except per share data	**As Originally Reported**	**As Adjusted**	**Effect of Adoption of New Standard**
Merchandise sales	$ 6,927	$ 6,743	$ (184)
Services and other	1,739	1,734	(5)
Cost of sales, buying and occupancy - merchandise sales	5,785	5,594	(191)
Operating income	196	490	294
Net loss attributable to Holdings' Shareholders	(7)	(5)	2
Basic loss per share	(0.07)	(0.05)	0.02

Condensed Consolidated Balance Sheets

	January 28, 2017		
millions	As Originally Reported	As Adjusted	Effect of Adoption of New Standard
Prepaid expenses and other current assets	$ 285	$ 300	$ 15
Other current liabilities	1,956	1,971	15
Other long-term liabilities	1,002	1,009	7
Total Deficit	(3,824)	(3,831)	(7)

	July 29, 2017		
millions	As Originally Reported	As Adjusted	Effect of Adoption of New Standard
Prepaid expenses and other current assets	$ 318	$ 334	$ 16
Other current liabilities	1,686	1,700	14
Other long-term liabilities	985	992	7
Total Deficit	(3,651)	(3,656)	(5)

	February 3, 2018		
millions	As Originally Reported	As Adjusted	Effect of Adoption of New Standard
Prepaid expenses and other current assets	$ 335	$ 346	$ 11
Other current liabilities	1,568	1,575	7
Other long-term liabilities	928	935	7
Total Deficit	(3,723)	(3,726)	(3)

Condensed Consolidated Statements of Cash Flows

	26 Weeks Ended July 29, 2017		
millions	As Originally Reported	As Adjusted	Effect of Adoption of New Standard
Net loss	$ (7)	$ (5)	$ 2
Change in other operating liabilities	(327)	(329)	(2)

The Company's accounting policies, as updated from our Annual Report on Form 10-K for the year ended February 3, 2018, pursuant to the adoption of the new standard, are as follows.

Revenue Recognition

Revenues from contracts with customers include sales of merchandise, services and extended service contracts, delivery and handling revenues related to merchandise sold, and fees earned from co-branded credit card programs. Revenue is measured based on the amount of fixed consideration that we expect to receive, reduced by estimates for variable consideration such as returns and promotional discounts. Revenue also excludes any amounts collected on behalf of third parties, including sales taxes. In arrangements where we have multiple performance obligations, the transaction price is allocated to each performance obligation using the relative stand-alone selling price. We generally determine stand-alone selling prices based on the prices charged to customers or using expected cost plus a

margin. We generally receive payments from customers for sales of merchandise, extended service contracts, product installation, and delivery and handling at the point of sale and payments from customers for services, fees from co-branded credit card programs and agreements with SHO and Lands' End when the performance obligations are satisfied.

We recognize revenues from retail operations upon the transfer of control of the goods to the customer. The Company satisfies its performance obligation at the point of sale for retail store transactions and upon delivery for online transactions. We defer the recognition of layaway sales and profit until the period in which the customer takes possession of the merchandise, which is when our related performance obligation has been satisfied. For retail store and online transactions where the Company has not transferred control of the goods to the customer at the end of the period, the performance obligation is generally satisfied in the following reporting period.

Revenues from the sale of service contracts and the related direct acquisition costs are deferred and amortized over the lives of the associated contracts, while the associated service costs are expensed as incurred. The Company satisfies its performance obligations for service contracts over time as the Company is obligated to perform the related services over the contract period, while payment from the customer is generally received at the inception of the service contract. Revenues from product installation and repair services are recognized at the time the services are provided, which is also when the Company has satisfied its performance obligations.

Revenues earned in connection with our agreements with SHO and Lands' End are earned upon the transfer of control of merchandise or the satisfaction of the service performance obligation.

The Company has a Shop Your Way program in which customers earn points on purchases which may be redeemed to pay for future purchases. Points earned pursuant to the Shop Your Way program represent performance obligations and the Company allocates revenue between the merchandise or service and Shop Your Way points based on the relative stand-alone selling price of each performance obligation. The Company uses a portfolio approach and the expected cost plus margin approach to determine the stand-alone selling price of Shop Your Way points. The Company's assessment also incorporates our estimate of Shop Your Way points that we expect will not be redeemed (breakage) based on historical redemption patterns. Revenue related to Shop Your Way points is initially deferred and recognized when the points are redeemed or expire. The Company expects to recognize revenue related to the Shop Your Way points performance obligation within one year from when the points are earned by the customer.

We sell gift cards to customers at our retail stores and through our direct to customer operations. The gift cards generally do not have expiration dates. Revenues from gift cards are recognized when the gift card is redeemed by the customer. The Company also recognizes the estimated value of gift cards we expect will not be redeemed (gift card breakage) as revenue in proportion to the redemption of gift cards based on historical redemption patterns when we determine that we do not have a legal obligation to remit the value of the unredeemed gift cards to the relevant jurisdictions.

We also earn revenues through arrangements with third-party financial institutions that manage and directly extend credit relative to our co-branded credit card programs. The third-party financial institutions pay us for generating new accounts and sales activity on co-branded cards, as well as for selling other financial products to cardholders. We recognize these revenues over time as our related performance obligations have been satisfied.

Revenues from merchandise sales are reported net of estimated returns and exclude sales taxes. The typical return period is 30 days and the refund liability for returns is calculated as a percentage of sales based on historical return percentages. Estimated returns are recorded as a reduction of sales and cost of sales. We offer assurance-type warranties on certain Kenmore®, Craftsman®, and DieHard® branded products, as well as on certain services, that we do not consider performance obligations.

Cost of Sales, Buying and Occupancy

Cost of sales, buying and occupancy are comprised principally of the costs of merchandise, buying, warehousing and distribution (including receiving and store delivery costs), retail store occupancy costs, product repair, and home service and installation costs, customer shipping and handling costs, vendor allowances, markdowns and physical inventory losses.

Pension Benefit Guaranty Corporation Agreement

On March 18, 2016, we entered into a five-year pension plan protection and forbearance agreement (the "PPPFA") with the Pension Benefit Guaranty Corporation ("PBGC"), pursuant to which the Company has agreed to continue to protect, or "ring-fence," pursuant to customary covenants, the assets of certain special purpose subsidiaries (the "Relevant Subsidiaries") holding real estate and/or intellectual property assets. Also under the agreement, the Relevant Subsidiaries granted the PBGC a springing lien on the ring-fenced assets, which lien will be triggered only by (a) failure to make required contributions to the Company's pension plans (the "Plans"), (b) prohibited transfers of ownership interests in the Relevant Subsidiaries, (c) termination events with respect to the Plans, or (d) bankruptcy events with respect to the Company or certain of its material subsidiaries. Under the PPPFA, the PBGC has agreed to forbear from initiating an involuntary termination of the Plans, except upon the occurrence of specified conditions, one of which is based on the aggregate market value of the Company's issued and outstanding stock. As of the date of this report, the Company's stock price is such that the PBGC would be permitted to cease forbearance. The PBGC has been given notice in accordance with the terms of the PPPFA and has not communicated any intention to cease its forbearance.

In November 2017, we entered into an amendment to the PPPFA which provided for the release of 138 of our properties from a ring-fence arrangement, which is further described below and in Note 5.

In August 2018, we entered into an amendment to the PPPFA which provided for the release of 12 of our properties from a ring fence arrangement, which had originally been granted in connection with the Craftsman Sale, as defined below, in exchange for a contribution of $32 million into an escrow for the benefit of our pension plans (the "Required Deposit"). The Required Deposit was made on August 30, 2018, using funds generated from the sale and leaseback of one of the 12 properties.

Craftsman Brand Sale

On March 8, 2017, the Company closed its sale of the Craftsman brand to Stanley Black & Decker (the "Craftsman Sale"). The transaction provides Stanley Black & Decker with the right to develop, manufacture and sell Craftsman-branded products outside of Holdings and Sears Hometown & Outlet Stores, Inc. distribution channels. As part of the transaction, Holdings is permitted to continue to offer Craftsman-branded products, sourced from existing suppliers, through its current retail channels via a perpetual license from Stanley Black & Decker, which will be royalty-free for the first 15 years after closing and royalty-bearing thereafter.

The Company received an initial upfront payment of $525 million, subject to closing costs and an adjustment for working capital changes, at closing. In addition, Stanley Black & Decker will pay a further $250 million in cash in three years (the "Craftsman Receivable") and Holdings will receive payments of between 2.5% and 3.5% on new Stanley Black & Decker sales of Craftsman products made during the 15 year period following the closing. In connection with the Craftsman Sale, we recognized a gain in our Kmart segment of $492 million within gain on sales of assets in the Condensed Consolidated Statements of Operations for the 26 weeks ended July 29, 2017, and initially established a receivable of $234 million for the net present value of the Craftsman Receivable. During the 13 weeks ended July 29, 2017, we sold the Craftsman Receivable to a third-party purchaser.

In connection with the closing of the Craftsman Sale, Holdings reached an agreement with the PBGC pursuant to which the PBGC consented to the sale of the Craftsman-related assets that had been "ring-fenced" under the PPPFA and certain related transactions. As a condition to obtaining this consent, the Company agreed to grant the PBGC a lien on, and subsequently contribute to the Company's pension plans, the value of the Craftsman Receivable, with such payments being fully credited against certain of the Company's minimum pension funding obligations in 2017, 2018 and 2019.

The Company also granted a lien to the PBGC on the 15-year income stream relating to new Stanley Black & Decker sales of Craftsman products, and agreed to contribute the payments from Stanley Black & Decker under such income stream to the Company's pension plans, with such payments to be credited against the Company's minimum pension funding obligations starting no later than five years from the closing date. The Company also agreed to grant the PBGC a lien on $100 million of real estate assets to secure the Company's minimum pension funding obligations through the end of 2019 and agreed to certain other amendments to the PPPFA. The real estate assets were released from the ring-fence arrangement in August 2018 as described above and in Note 5.

Cash and Cash Equivalents and Restricted Cash

Our cash and cash equivalents include all highly liquid investments with original maturities of three months or less at the date of purchase. The Company classifies cash balances that are legally restricted pursuant to contractual arrangements as restricted cash. The restricted cash balance relates to amounts deposited in escrow for the benefit of our pension plans at each of August 4, 2018, July 29, 2017 and February 3, 2018.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Condensed Consolidated Balance Sheets that sum to the total of the same such amounts shown in the Condensed Consolidated Statements of Cash Flows as of August 4, 2018, July 29, 2017 and February 3, 2018.

millions	August 4, 2018	July 29, 2017	February 3, 2018
Cash and cash equivalents	$ 110	$ 121	$ 113
Cash posted as collateral	5	4	4
Credit card deposits in transit	78	87	65
Total cash and cash equivalents	193	212	182
Restricted cash	248	230	154
Total cash balances	$ 441	$ 442	$ 336

Depreciation Expense

Depreciation expense included within depreciation and amortization reported in the Condensed Consolidated Statements of Operations was $65 million and $82 million for the 13 week periods ended August 4, 2018 and July 29, 2017, respectively, and $131 million and $168 million for the 26 week periods ended August 4, 2018 and July 29, 2017, respectively.

Liquidity

We need liquidity to fund both working capital requirements of our businesses and necessary capital expenditures as well as to be available for general corporate purposes, including debt repayments and pension plan contributions. We have experienced losses and negative cash flows for a number of years and while we continue to focus on our overall profitability, including managing expenses, we have continued to incur operating losses in the second quarter and first half of 2018, and continued to fund cash used in operating activities with cash from investing and financing activities. In addition, we will be required to fund a debt payment of $134 million during October 2018, in addition to $668 million of other debt maturing in the next twelve months.

Recent Sources of Incremental Liquidity

The Company has taken a number of actions to support its ongoing transformation efforts, while continuing to support its operations and meet its obligations in light of the incurred losses and negative cash flows from operations experienced over the past several years. These actions can be broadly broken down into three categories: (i) financing transactions; (ii) asset sales; and (iii) operational streamlining, including store closings. These financing activities have included the completion of various secured and unsecured financing transactions, the extension of the maturity of certain of our indebtedness, and the amendment to other terms of certain of our indebtedness to increase our overall financial flexibility. The actions relative to our assets have included transactions to monetize the value of certain assets such as the sale of the Craftsman brand to Stanley Black & Decker in the first quarter of 2017 for consideration consisting of upfront cash payments and a future royalty stream, sales of properties and investments for proceeds of $1.1 billion in fiscal 2017, and an amendment to our credit card program agreement with Citibank, N.A. which resulted in a payment to the Company of $425 million during the second quarter of 2018. Streamlining actions have included a restructuring program announced at the beginning of 2017 (which produced cost savings during that year and into 2018) and the closure of 137 stores during 2018, and an additional 149 stores that will close during the second half of 2018. The Company intends to take further actions to streamline operations in 2018 to achieve additional cost reductions unrelated to store closures.

In addition to previous actions taken, the Company may access other sources of liquidity to support its operations. For instance, we are permitted to obtain longer-term secured financing maturing outside of the maturity date of our domestic credit facility which would not be subject to borrowing base limitations (see Note 2 of Notes to Consolidated Financial Statements). Other options which may be available to us, which we will evaluate and seek to execute as appropriate, include refinancing existing debt, borrowing against facilities in place with availability and additional real estate loans against unencumbered properties, which we have successfully executed in the past.

Asset Monetization

A special committee of the board of directors (the "Board") of the Company (the "Special Committee") is overseeing a formal process to explore the sale of our Kenmore brand and related assets, the Sears Home Improvement Products business of the Sears Home Services division and the Parts Direct business of the Sears Home Services division (collectively, the "Sale Assets"). As previously reported, the Board received a letter from ESL Investments, Inc. ("ESL") expressing the view that the Company should pursue a divestiture of the Sale Assets in order to maximize their value, and expressing interest in participating as a purchaser of all or a portion of the Sale Assets should the Company do so. The Board established the Special Committee, which consists solely of independent directors, and is advised by independent advisors, to evaluate any proposals that may be received from ESL with respect to the Sale Assets, to actively solicit third-party interest in the Sale Assets, and to explore any other alternatives with respect to the Sale Assets that may maximize value for the Company. On August 14, 2018 the Special Committee received a non-binding proposal letter from ESL to acquire the Kenmore brand and related assets and the Sears Home Improvement Products business of the Sears Home Services division, each subject to various conditions including obtaining debt financing, and, in the case of Kenmore, obtaining equity financing on terms acceptable to ESL. The Special Committee is evaluating the proposal, and potentially other proposals as part of its formal process.

We also continue to explore ways to unlock value across a range of other assets and to maximize the value of our Sears Home Services, Innovel and Sears Auto Centers businesses, as well as our DieHard brand, through partnerships, sales or other means of externalization that could expand distribution of our brands and service offerings.

Our efforts also continue to right-size, redeploy and highlight the value of our assets, including monetizing our real estate portfolio, as we look to de-lever our balance sheet, provide liquidity and continue in our transition from an asset intensive, historically "store-only" based retailer to a more asset light, integrated membership-focused company.

Actions to Address Liquidity Needs

The following actions, which are intended to fund liquidity needs over the next twelve months, are in various stages of completion as of the date of this filing. We believe these actions, some of which we expect, subject to our governance processes, including the process being overseen by the Special Committee, to include related party participation and funding and, in the case of Sale Assets that are sold to ESL, subject to approval by a majority of the disinterested stockholders of Holdings, if completed, would be sufficient to satisfy our liquidity needs for the next twelve months from the issuance of the financial statements.

- Sales of properties securing the remaining principal amount of the Secured Loans to fund the repayment of such Secured Loans;
- Additional borrowings under the Mezzanine Loan Agreement, Term Loan Facility and the Consolidated Secured Loan Facility;
- Monetization of the Sale Assets;
- Extension of maturities beyond September 2019 of Line of Credit Loans under the Second Lien Credit Agreement;
- Additional borrowings secured by real estate assets, borrowings under the short-term basket, or other borrowings;
- Amendments to the terms of certain of our financing arrangements, including to allow interest on some of our debt to paid-in-kind;

- Further evaluation and right-sizing of our store base, including evaluation of our business categories; and
- Further restructurings to help manage expenses and improve profitability, including additional store closures and the accomplishments of our planned cost savings initiatives.

While we believe that completion of these actions would be sufficient to satisfy our liquidity needs for the next twelve months from the issuance of the financial statements, these actions have not been fully executed as of the date of this report and certain of the actions have not received necessary approvals (including but not limited to approval of the Special Committee and approval of a majority of the disinterested stockholders of the Company in the case of certain proposed transactions with ESL), and/or are at too early of a stage in the process to be considered probable of occurring under applicable accounting guidance as of the date of this report. Accordingly, because we cannot at this time conclude that these actions are probable of occurring under such accounting standards, substantial doubt is deemed to exist about our ability to continue as a going concern. The Company continues to move forward with these proposed actions, including the process being overseen by the Special Committee, and discussions with lenders, in order to complete these actions. The Company believes that completion of these actions, or in some cases substantial progress towards such completion, would alleviate or eliminate the substantial doubt. The Company will continue to reevaluate this assessment.

The PPPFA contains certain limitations on our ability to sell assets, including the Kenmore brand and related assets, which could impact our ability to complete asset sale transactions or our ability to use proceeds from those transactions to fund our operations. Therefore, the analysis of liquidity needs includes consideration of the applicable restrictions under the PPPFA and the ability to utilize related party borrowings to provide liquidity when there are short-term delays in the closing of transactions.

The success of the foregoing actions is subject to various risks, uncertainties and other factors, including market conditions, interest in specific assets and our ability to close the sales of assets at valuations and within time frames that are acceptable to us, our ability to effectively and timely execute the above actions to improve the operating performance of our businesses and, in certain cases, the approval and participation of third parties, including our creditors and the PBGC.

If we continue to experience operating losses and we are not able to generate additional liquidity through the actions described above or through some combination of other actions, then our liquidity needs may exceed availability under our Amended Domestic Credit Agreement, our second lien line of credit loan facility and our other existing facilities, and we might need to secure additional sources of funds, which may or may not be available to us. A failure to secure such additional funds could cause us to be in default under the Amended Domestic Credit Agreement or other financing agreement. Additionally, a failure to generate additional liquidity could negatively impact our access to inventory or services that are important to the operation of our business. Moreover, if the borrowing base (as calculated pursuant to our outstanding second lien debt) falls below the principal amount of such second lien debt plus the principal amount of any other indebtedness for borrowed money that is secured by liens on the collateral for such debt on the last day of any two consecutive quarters, it could trigger an obligation to repurchase our New Senior Secured Notes in an amount equal to such deficiency. As of August 4, 2018, our borrowing base was below the above threshold, and if our borrowing base is below the above threshold at the end of our third quarter of 2018, it would trigger an obligation to repurchase or repay second lien debt, in an amount equal to the excess of our funded debt secured by liens on our inventory as of November 3, 2018 over the borrowing base. If we fail to make such repurchase or repayment, we would be in violation of our covenants under our Second Lien Credit Agreement and the indenture relating to our New Senior Secured Notes.

Sears Canada

At each of August 4, 2018, July 29, 2017 and February 3, 2018, the Company was the beneficial holder of approximately 12 million, or 12%, of the common shares of Sears Canada. In July 2017, Sears Canada filed for court protection and trading of its common shares was suspended. Accordingly, we recognized other-than-temporary impairment of $12 million, thereby reducing the carrying value to zero, within interest and investment loss in our Condensed Consolidated Statements of Operations during the 13- and 26- weeks ended July 29, 2017.

NOTE 2—BORROWINGS

Total borrowings were as follows:

millions	August 4, 2018	July 29, 2017	February 3, 2018
Short-term borrowings:			
Secured borrowings	$ 660	$ 216	$ 271
Line of credit loans	570	330	500
Incremental loans	—	—	144
Secured loan	24	—	—
Long-term debt, including current portion:			
Notes and debentures outstanding	3,639	3,360	3,145
Capitalized lease obligations	61	97	72
Total borrowings	$ 4,954	$ 4,003	$ 4,132

The fair value of long-term debt, excluding capitalized lease obligations, was $3.5 billion at August 4, 2018, $3.3 billion at July 29, 2017 and $2.8 billion at February 3, 2018. The fair value of our debt was estimated based on quoted market prices for the same or similar issues or on current rates offered to us for debt of the same remaining maturities. Our long-term debt instruments are valued using Level 2 measurements as defined in Note 5 of our Annual Report on Form 10-K for the fiscal year ended February 3, 2018.

Letter of Credit Facility

On December 28, 2016, the Company, through Sears Roebuck Acceptance Corp. ("SRAC") and Kmart Corporation (together with SRAC, the "Borrowers"), entities wholly-owned and controlled, directly or indirectly by the Company, entered into the Letter of Credit and Reimbursement Agreement (the "LC Facility") providing for a $500 million secured standby letter of credit facility (of which $271 million was committed at August 4, 2018) from JPP, LLC and JPP II, LLC, entities affiliated with ESL (collectively, the "Lenders"), with Citibank, N.A., serving as administrative agent and issuing bank.

In August 2017, the Company executed amendments to the LC Facility. The amendments, among other things, extended the maturity to December 28, 2018, eliminated the unused portion of the facility and released the real estate collateral that secured the original LC Facility. The amended LC Facility also permits the Lenders to syndicate all or a portion of their commitments under the facility to other lenders, of which $165 million has been syndicated to unaffiliated third party lenders as of August 4, 2018. In April 2018, the Company executed amendments to the LC Facility, which extended the maturity to December 28, 2019.

The amended LC Facility is guaranteed by the same subsidiaries of the Company that guarantee the obligations under the Amended Domestic Credit Agreement, as defined below. The amended LC Facility is secured by substantially the same collateral as the Amended Domestic Credit Agreement. The amended LC Facility contains a borrowing base calculation, pursuant to which the borrowers are required to cash collateralize the LC Facility if the aggregate obligations under the Amended Domestic Credit Agreement, amended LC Facility and certain other cash management and similar obligations exceed the Modified Borrowing Base, as defined in the amended LC Facility, as of the end of any calendar month.

To secure their obligation to participate in letters of credit issued under the LC Facility, the lenders under the LC Facility are required to maintain cash collateral on deposit with the Issuing Bank in an amount equal to 102% of the commitments under the LC Facility (the "Lender Deposit"). The Borrowers paid the Lenders an upfront fee equal to 1.00% of the aggregate amount of the Lender Deposit, and in connection with the extension of the maturity of the LC Facility in April 2018, the Borrowers paid the Lenders an upfront fee equal to 0.50% of the aggregate amount of the Lender Deposit. In addition, the Borrowers are required to pay a commitment fee on the average daily amount of the Lender Deposit (as such amount may be increased or decreased from time to time) equal to the Eurodollar Rate (as defined under the Amended Domestic Credit Facility) plus 11.0%, as well as certain other fees. The Borrowers are also required to pay a fee equal to 0.50% of the aggregate amount of the Lender Deposit in connection with the

termination of the LC Facility, whether at maturity or otherwise, or of any reduction in the amount of the Lenders' commitments under the LC Facility.

The LC Facility includes certain representations and warranties, affirmative and negative covenants and other undertakings, which are subject to important qualifications and limitations set forth in the LC Facility. The LC Facility also contains certain events of default, including (subject to certain materiality thresholds and grace periods) payment default, failure to comply with covenants, material inaccuracy of representation or warranty, and bankruptcy or insolvency proceedings. If an event of default occurs, the Lenders may terminate all or any portion of the commitments under the LC Facility, require the Borrowers to cash collateralize the LC Facility and/or exercise any rights they might have under any of the related facility documents (including against the collateral), subject to certain limitations. At each of August 4, 2018, July 29, 2017 and February 3, 2018, we had $271 million of letters of credit outstanding under the LC Facility.

Secured Loan and Mezzanine Loan

On March 14, 2018, the Company, through SRC O.P. LLC, SRC Facilities LLC and SRC Real Estate (TX), LLC (collectively, the "Secured Loan Borrowers"), entities wholly-owned and controlled indirectly by the Company, entered into a Credit Agreement (the "Credit Agreement") with the lenders party thereto (collectively, the "Secured Lenders"). The Credit Agreement provides for a $200 million term loan (the "Secured Loan") that was initially secured by the Secured Loan Borrowers' interests in 138 real properties that were released from a ring-fence arrangement with the PBGC. The Secured Loan had an original maturity date of December 14, 2018. The Company used the proceeds of the Secured Loan to make a contribution to the Company's pension plans and for general corporate purposes.

Also on March 14, 2018, the Company, through SRC Sparrow 2 LLC (the "Mezzanine Loan Borrower"), an entity wholly-owned and controlled indirectly by the Company, entered into a Mezzanine Loan Agreement (the "Mezzanine Loan Agreement") with the Lenders, entities affiliated with ESL. The Mezzanine Loan Agreement provides for a $240 million term loan (the "Mezzanine Loan") that is secured by a pledge of the equity interests in SRC O.P. LLC, the direct parent company of the entities that own the 138 real properties that initially secured the obligations of the Secured Loan Borrowers under the Credit Agreement. The Mezzanine Loan matures on July 20, 2020. The Company used the proceeds of the Mezzanine Loan to make a contribution to the Company’s pension plans.

The Mezzanine Loan Agreement contains an uncommitted accordion feature pursuant to which the Mezzanine Loan Borrower may incur additional loans ("Additional Mezzanine Loans") subject to certain conditions set forth in the Mezzanine Loan Agreement and the Credit Agreement. During the first half of 2018, the Company obtained Additional Mezzanine Loans of $273 million.

On June 29, 2018, the Secured Loan Borrowers entered into a Second Amendment to the Credit Agreement with the Secured Lenders that increased the loan-to-value cap applicable to the aggregate principal amount of the Secured Loan, the Mezzanine Loan and the Additional Mezzanine Loans that may be incurred under the Credit Agreement and the Mezzanine Loan Agreement from 55% to 69%. The Mezzanine Loan Agreement was also amended to make a conforming change to the loan-to-value cap to increase such cap from 55% to 69%. No upfront or other fees were paid by the Secured Loan Borrowers in connection with these amendments.

On August 31, 2018, the Secured Loan Borrowers entered into a Third Amendment to the Credit Agreement with the Secured Lenders pursuant to which the Secured Loan Borrowers borrowed an additional $113 million from the Secured Lenders (together with the original $200 million term loan, the "Secured Loans"), which was used for general corporate purposes. The Secured Loans are secured by the Secured Loan Borrowers' interests in 119 real properties. The Secured Loans mature on August 30, 2019. The Company paid an upfront commitment fee of 2.75% of the additional borrowings.

The Secured Loans, the Mezzanine Loan and the Additional Mezzanine Loans are guaranteed by the Company and certain of its subsidiaries. The Secured Loan originally had interest at an annual interest rate of LIBOR plus 6.5% for the first three months the Secured Loan is outstanding, LIBOR plus 7.5% for the fourth through the sixth month the Secured Loan is outstanding and LIBOR plus 8.5% for the seventh through the ninth month the Secured Loan is outstanding. The Secured Loans will bear interest at an annual interest rate of LIBOR plus 6.5% for the first four months following the Third Amendment to the Credit Agreement, LIBOR plus 7.5% for the fifth through eighth

month, and LIBOR plus 8.5% for the ninth through twelve month. Accrued interest is payable monthly during the term of the Secured Loans. The Mezzanine Loan and the Additional Mezzanine Loans bear interest at an annual interest rate of LIBOR plus 11.0%, with accrued interest payable monthly during the term of the Mezzanine Loan and the Additional Mezzanine Loans. The Company paid an upfront commitment fee of 1.5% of the principal amount of the Secured Loan, and paid an arrangement fee. The Mezzanine Borrowers paid upfront commitment fees equal to 1.8% of the principal amount of the Mezzanine Loan and the Additional Mezzanine Loans.

To the extent permitted under other debt of the Company or its affiliates, the Secured Loans, the Mezzanine Loan and the Additional Mezzanine Loans may be prepaid at any time in whole or in part, without penalty or premium. The Secured Loan Borrowers are required to apply the net proceeds of the sale of any real property collateral for the Secured Loans to repay the Secured Loans. Following repayment in full of the Secured Loans, the Mezzanine Loan Borrower is required to apply the net proceeds of the sale of any real property that served as collateral for the Secured Loans to repay the Mezzanine Loan and the Additional Mezzanine Loans. The Company used proceeds of $170 million to pay a portion of the Secured Loan during the 26 weeks ended August 4, 2018.

The Credit Agreement and the Mezzanine Loan Agreement include certain representations and warranties, indemnities and covenants, including with respect to the condition and maintenance of the real property collateral. The Credit Agreement and the Mezzanine Loan Agreement have certain events of default, including (subject to certain materiality thresholds and grace periods) payment default, failure to comply with covenants, material inaccuracy of representation or warranty, and bankruptcy or insolvency proceedings. If there is an event of default, the Secured Loan Lenders and the Mezzanine Lenders may declare all or any portion of the outstanding indebtedness to be immediately due and payable, exercise any rights they might have (including against the collateral), and require the Secured Loan Borrowers or Mezzanine Loan Borrower to pay a default interest rate of 2.0% in excess of the base interest rate.

At August 4, 2018, the carrying value of the Secured Loan, net of the remaining debt issuance costs, was $24 million. The Secured Loan is included within short-term borrowings in the Condensed Consolidated Balance Sheets at August 4, 2018. At August 4, 2018, the carrying value of the Mezzanine Loan, net of the remaining debt issuance costs, was $230 million. At August 4, 2018, the carrying value of the Additional Mezzanine Loans, net of the remaining debt issuance costs, was $269 million.

Term Loan Facility

On January 4, 2018, the Borrowers entered into a Term Loan Credit Agreement (the “Term Loan Credit Agreement”) providing for a secured term loan facility (the “Term Loan Facility”) from the Lenders, entities affiliated with ESL. The Term Loan Facility is guaranteed by the Company and certain of its subsidiaries that guarantee the Company’s other material debt or own material intellectual property. The Term Loan Facility is secured by substantially all of the unencumbered intellectual property of the Company and its subsidiaries, other than intellectual property relating to the Kenmore and DieHard brands, as well as by certain real property interests, in each case subject to certain exclusions. On January 4, 2018, $100 million was borrowed under the Term Loan Facility. The Term Loan Facility also contains an uncommitted incremental loan feature that, subject to the satisfaction of certain conditions, including the consent of the Agent, would permit up to an additional $200 million to be borrowed from other counterparties and secured by the same collateral as the initial loan under the Term Loan Facility. An additional $30 million was borrowed under the Term Loan Facility on January 19, 2018.

On January 29, 2018, the Company entered into an Amendment to the Term Loan Credit Agreement (the "Term Loan Facility Amendment"), pursuant to which an additional $20 million was borrowed from the Lenders and a further $60 million was borrowed from certain unaffiliated lenders, bringing the total amount borrowed under the Term Loan Facility to $210 million at February 3, 2018. The Term Loan Facility Amendment, among other changes, separates the loans under the Term Loan Facility into two tranches. On February 26, 2018, the Company entered into another amendment to the Term Loan Credit Agreement pursuant to which an additional $40 million was borrowed from the Lenders.

The loans under the Term Loan Facility bear interest at a weighted average annual interest rate of LIBOR plus 12.5%, which during the first year must be paid in kind by capitalizing interest. The loans under the Term Loan Facility mature on July 20, 2020. The Company used the proceeds of the Term Loan Facility for general corporate purposes. No upfront or arrangement fees were paid in connection with the Term Loan Facility. The loans under the

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

Term Loan Facility are prepayable without premium or penalty. The Company used proceeds of $30 million to pay interest and a portion of the Term Loan Facility during the 26 weeks ended August 4, 2018.

The Term Loan Facility includes certain representations and warranties, indemnities and covenants, including with respect to the condition and maintenance of the intellectual property and real property collateral. The Term Loan Facility has certain events of default, including (subject to certain materiality thresholds and grace periods) payment default, failure to comply with covenants, material inaccuracy of representation or warranty, and bankruptcy or insolvency proceedings. If there is an event of default, the Lenders may declare all or any portion of the outstanding indebtedness to be immediately due and payable, exercise any rights they might have (including against the collateral), and require the Borrowers to pay a default interest rate.

At August 4, 2018 and February 3, 2018, the carrying value of the Term Loan Facility, net of the remaining debt issuance costs, was $233 million and $206 million, respectively. The carrying value includes paid-in-kind interest of $15 million and $1 million at August 4, 2018 and February 3, 2018, respectively.

Consolidated Secured Loan Facility

On June 4, 2018, the Company, through the Incremental Loan Borrowers (as defined below), entered into a Third Amended and Restated Loan Agreement (the "Consolidated Loan Agreement") with the 2016 Secured Loan Lenders (as defined below), which amends and restates the Second Amended and Restated Loan Agreement, dated as of October 18, 2017. In connection with the Consolidated Loan Agreement, the 2016 Secured Loan Lenders made an additional advance in an aggregate principal amount of approximately $186 million, which was used to repay the loans outstanding under the 2016 Secured Loan Facility and terminate the agreement. In connection therewith, the mortgages on the 13 real properties securing the 2016 Secured Loan Facility were released and these properties were pledged as collateral for the loan under the Consolidated Loan Agreement (the "Consolidated Secured Loan Facility"). After giving effect to the additional advance, the aggregate principal amount of the loan outstanding under the Consolidated Loan Agreement as of June 4, 2018 was approximately $779 million. The Consolidated Secured Loan Facility matures on July 20, 2020.

On September 12, 2018, the Company, through the Incremental Loan Borrowers, entered into a First Amendment to the Consolidated Loan Agreement with the 2016 Secured Loan Lenders, pursuant to which certain of the Incremental Loan Borrowers (the "Additional Advance Borrowers") received an additional advance in aggregate principal amount of $75 million (the "Additional Advance") and granted the 2016 Secured Loan Lenders a first priority lien on an additional 20 real properties. No Incremental Loan Borrower other than the Additional Advance Borrowers shall have any liabilities or obligations in connection with the Additional Advance.

After giving effect to the Additional Advance, the aggregate principal amount of the loan outstanding under the Consolidated Loan Agreement as of September 12, 2018 was approximately $831 million. Approximately $108 million of Consolidated Secured Loan Facility, which as of closing of the Additional Advance was held by Cascade Investment, LLC, is structured as a "first out" tranche evidenced by promissory note "A" ("Note A") and bears interest at LIBOR plus 6.50% per annum. The remainder of Consolidated Secured Loan Facility is evidenced by promissory note "B" ("Note B"), which as of closing of the Additional Advance was held by JPP, LLC and JPP II, LLC, entities affiliated with ESL, and bears interest at LIBOR plus 9.00% per annum. The Consolidated Secured Loan Facility matures on July 20, 2020.

The Incremental Loan Borrowers paid approximately $1.6 million in upfront fees to the 2016 Secured Loan Lenders in connection with the Consolidated Loan Agreement and the Additional Advance Borrowers paid approximately $0.4 million in upfront fees to the 2016 Secured Loan Lenders in connection with the Additional Advance. In addition, to the extent any portion of the loan evidenced by Note A remains outstanding on March 12, 2019, the Incremental Loan Borrowers must pay the holder of Note A an additional fee of 1.00% of the principal amount outstanding under Note A as of such date, and to the extent any portion of the loan evidenced by Note A remains outstanding on September 12, 2019, the Incremental Loan Borrowers must pay the holder of Note A an additional fee of 2.00% of the principal amount outstanding under Note A as of such date.

The Incremental Loan Borrowers have the right, at any time prior to October 15, 2018, to request an additional advance under the Consolidated Loan Agreement in an amount not to exceed $50 million. The making of any such additional advance and the amount thereof shall be subject to the 2016 Secured Loan Lenders' sole discretion and the payment of an origination fee equal to 0.5% of the amount so advanced. If no such additional advance is made,

or if an additional advance is made in an amount less than $50 million, the 2016 Secured Loan Lenders shall reasonably promptly release their liens on certain of the additional 20 real properties pledged in connection with the Additional Advance.

The Consolidated Secured Loan Facility is guaranteed by the Company and, after giving effect to the Additional Advance, is secured by a first priority lien on 88 real properties owned or leased by the Incremental Loan Borrowers, which includes real property that initially secured the 2017 Secured Loan Facility, Incremental Loans and 2016 Secured Loan Facility. To the extent permitted under other debt of the Company or its affiliates, the Consolidated Secured Loan Facility may be prepaid at any time in whole or in part, without penalty or premium. The Incremental Loan Borrowers are required to apply the net proceeds of the sale of any real property collateral to repay the Consolidated Secured Loan Facility. Any such prepayments or repayments will be applied first to Note A until Note A is repaid in full, and then to Note B, provided, that the holder of Note A shall have the right to waive any such prepayment or repayment (other than in connection with a repayment of the Consolidated Secured Loan Facility in full at maturity or any other prepayment in full or repayment in full of the Consolidated Secured Loan Facility), in which case (x) such prepayment or repayment shall be applied to Note B and (y) such amount shall reduce the principal amount of indebtedness deemed outstanding under Note A solely for the purpose of calculating the delayed origination fees described above. The Company used proceeds of $23 million to pay interest and a portion of the Consolidated Secured Loan Facility during the 26 weeks ended August 4, 2018.

The Consolidated Loan Agreement includes certain representations and warranties, indemnities and covenants, including with respect to the condition and maintenance of the real property collateral. The Consolidated Loan Agreement has certain events of default, including (subject to certain materiality thresholds and grace periods) payment default, failure to comply with covenants, material inaccuracy of representation or warranty, and bankruptcy or insolvency proceedings. If there is an event of default, the 2016 Secured Loan Lenders may declare all or any portion of the outstanding indebtedness to be immediately due and payable, exercise any rights they might have under any of the Consolidated Secured Loan Facility documents (including against the collateral), and require the Incremental Loan Borrowers to pay a default interest rate equal to the greater of (i) 2.5% in excess of the base interest rate and (ii) the prime rate plus 1%.

The carrying value of the Consolidated Secured Loan Facility, net of the remaining debt issuance costs, was $748 million at August 4, 2018.

2017 Secured Loan Facility

On January 3, 2017, the Company, through Sears, Kmart Stores of Illinois LLC, Kmart of Washington LLC and Kmart Corporation (collectively, "2017 Secured Loan Borrowers"), entities wholly-owned and controlled, directly or indirectly by the Company, obtained a $500 million real estate loan facility (the "2017 Secured Loan Facility") from the Lenders, entities affiliated with ESL. On January 3, 2017, $321 million was funded under the 2017 Secured Loan Facility, and an additional $179 million was drawn by the Company prior to January 28, 2017. The 2017 Secured Loan Facility had an original maturity of July 20, 2020. The Company used the proceeds of the 2017 Secured Loan Facility for general corporate purposes.

During October 2017, the Company, through the 2017 Secured Loan Borrowers and SHC Desert Springs, LLC, Innovel Solutions, Inc., Sears Holdings Management Corporation, Maxserv, Inc., Troy Coolidge No. 13, LLC, Sears Development Co. and Big Beaver of Florida Development, LLC (collectively, "Incremental Loan Borrowers"), entities wholly-owned and controlled, directly or indirectly by the Company, entered into amended and restated loan agreements (the "Incremental Loans") with the Lenders, entities affiliated with ESL. The Company borrowed $200 million pursuant to the Incremental Loans, and used the proceeds for general corporate purposes. The Incremental Loans had an original maturity of July 6, 2018.

On March 8, 2018, the Company, through the 2017 Secured Loan Borrowers and SHC Desert Springs, LLC, Innovel Solutions, Inc., Sears Holdings Management Corporation, Maxserv, Inc. and Troy Coolidge No. 13, LLC (collectively, "Second Incremental Loan Borrowers"), entities wholly-owned and controlled, directly or indirectly by the Company, entered into a second amendment to the Incremental Loans (the "Second Amendment") with the Lenders, entities affiliated with ESL. Pursuant to the Second Amendment, the Second Incremental Loan Borrowers borrowed an additional $100 million from the Lenders, which had an original maturity of July 20, 2020 and had the same terms as the 2017 Secured Loan Facility, as amended. The Company used the proceeds for general corporate purposes.

On June 4, 2018, the 2017 Secured Loan Facility and Incremental Loans were amended and restated by the Consolidated Loan Agreement described above.

Initially, the 2017 Secured Loan Facility had an annual base interest rate of 8%, with accrued interest payable monthly during the term of the 2017 Secured Loan Facility. Pursuant to the Second Amendment, the interest rate increased to LIBOR plus 9%. The Borrowers paid an upfront commitment fee equal to 1.0% of the full principal amount of the 2017 Secured Loan Facility and paid a funding fee equal to 1.0% of the amounts drawn under the 2017 Secured Loan Facility at the time such amounts were drawn. The Incremental Loans had an annual interest rate of 11%, with accrued interest payable monthly. No upfront or funding fees were paid in connection with the Incremental Loans or the Second Amendment.

The 2017 Secured Loan Facility and Incremental Loans were guaranteed by the Company and certain of its subsidiaries, and were secured by a first priority lien on 69 real properties owned by the 2017 Secured Loan Borrowers and Incremental Loan Borrowers and guarantors at inception of the 2017 Secured Loan Facility, and an additional seven real properties owned by the Incremental Loan Borrowers at inception of the Incremental Loans. In certain circumstances, the Lenders and the 2017 Secured Loan Borrowers, Incremental Loan Borrowers and Second Incremental Loan Borrowers were permitted to substitute one or more properties as collateral. To the extent permitted under other debt of the Company or its affiliates, the 2017 Secured Loan Facility was permitted to be prepaid at any time in whole or in part, without penalty or premium. The 2017 Secured Loan Borrowers were required to apply the net proceeds of the sale of any real property collateral for the 2017 Secured Loan Facility to repay the loan. The Company used proceeds of $20 million and $39 million to pay interest and a portion of the 2017 Secured Loan Facility during the 26 weeks ended August 4, 2018 and July 29, 2017, respectively, and $6 million to pay interest and a portion of the Incremental Loans during the 26 weeks ended August 4, 2018.

The 2017 Secured Loan Facility and Incremental Loans included certain representations and warranties, indemnities and covenants, including with respect to the condition and maintenance of the real property collateral. The 2017 Secured Loan Facility and Incremental Loans had certain events of default, including (subject to certain materiality thresholds and grace periods) payment default, failure to comply with covenants, material inaccuracy of representation or warranty, and bankruptcy or insolvency proceedings. If there was an event of default, the Lenders may have declared all or any portion of the outstanding indebtedness to be immediately due and payable, exercise any rights they might have under any of the 2017 Secured Loan Facility or Incremental Loan documents (including against the collateral), and required the 2017 Secured Loan Borrowers, Incremental Loan Borrowers or Second Incremental Loan Borrowers to pay a default interest rate equal to the greater of (i) 2.5% in excess of the base interest rate and (ii) the prime rate plus 1%.

The carrying value of the 2017 Secured Loan Facility, net of the remaining debt issuance costs, was $446 million and $374 million at July 29, 2017 and February 3, 2018, respectively. The carrying value of the Incremental Loans, net of the remaining debt issuance costs, was $144 million at February 3, 2018. The Incremental Loans were included within short-term borrowings in the Condensed Consolidated Balance Sheets at February 3, 2018.

2016 Secured Loan Facility

On April 8, 2016, the Company, through Sears, Sears Development Co., Innovel, Big Beaver of Florida Development, LLC and Kmart Corporation (collectively, "2016 Secured Loan Borrowers"), entities wholly-owned and controlled, directly or indirectly by the Company, obtained a $500 million real estate loan facility (the "2016 Secured Loan Facility") from JPP, LLC, JPP II, LLC, and Cascade Investment, LLC (collectively, the "2016 Secured Loan Lenders"). JPP, LLC and JPP II, LLC are entities affiliated with ESL. The first $250 million of the 2016 Secured Loan Facility was funded on April 8, 2016 and the remaining $250 million was funded on April 22, 2016. The funds were used to reduce outstanding borrowings under the Company's asset-based revolving credit facility and for general corporate purposes. The 2016 Secured Loan Facility had an original maturity date of July 7, 2017. In May 2017, the Company reached an agreement to extend the maturity of $400 million of the 2016 Secured Loan Facility to January 2018, with options to further extend the maturity of the loan for up to an additional six months, to July 6, 2018, subject to the satisfaction of certain conditions and the payment of certain fees. On November 21, 2017, the Company notified the 2016 Secured Loan Lenders of its exercise of the first such option to extend the maturity to April 6, 2018, subject to the payment of an extension fee on January 8, 2018, which fee was paid on January 8, 2018. On February 5, 2018, the Company notified the 2016 Secured Loan Lenders of its exercise of the second such option to extend the maturity to July 6, 2018, subject to the payment of an extension fee on April 6,

2018, which fee was paid on April 6, 2018. The 2016 Secured Loan Facility was included within current portion of long-term debt in the Condensed Consolidated Balance Sheets at July 29, 2017 and February 3, 2018. The carrying value of the 2016 Secured Loan Facility, net of the remaining debt issuance costs, was $258 million and $251 million at July 29, 2017 and February 3, 2018, respectively. As noted above, on June 4, 2018, the Company repaid all loans outstanding under the 2016 Secured Loan Facility, and terminated the agreement.

The 2016 Secured Loan Facility had an annual base interest rate of 8%, with accrued interest payable monthly during the term of the 2016 Secured Loan Facility. The 2016 Secured Loan Borrowers paid an upfront commitment fee equal to 1.0% of the full principal amount of the 2016 Secured Loan Facility and paid a funding fee equal to 1.0% at the time such amounts were drawn. In connection with the May 2017 maturity extension, the Company paid a one-time extension fee equal to $8 million to the extending lenders.

The 2016 Secured Loan Facility was guaranteed by the Company and was originally secured by a first priority lien on 21 real properties owned by the 2016 Secured Loan Borrowers. The 2016 Secured Loan Facility included customary representations and warranties, indemnities and covenants, including with respect to the condition and maintenance of the real property collateral.

The 2016 Secured Loan Facility had customary events of default, including (subject to certain materiality thresholds and grace periods) payment default, failure to comply with covenants, material inaccuracy of representation or warranty, and bankruptcy or insolvency proceedings. If there is an event of default, the 2016 Secured Loan Lenders may have declared all or any portion of the outstanding indebtedness to be immediately due and payable, exercise any rights they might have under any of the 2016 Secured Loan Facility documents (including against the collateral), and required the 2016 Secured Loan Borrowers to pay a default interest rate equal to the greater of (i) 2.5% in excess of the base interest rate and (ii) the prime rate plus 1%. The 2016 Secured Loan Facility was permitted to be prepaid at any time in whole or in part, without penalty or premium. The 2016 Secured Loan Borrowers were required to apply the net proceeds of the sale of any real property collateral for the 2016 Secured Loan Facility to repay the loan. The Company used proceeds of $67 million and $238 million to pay interest and a portion of the 2016 Secured Loan Facility during the 26 weeks ended August 4, 2018 and July 29, 2017, respectively.

Domestic Credit Agreement

The Borrowers and Holdings are party to an amended and restated credit agreement (the "Amended Domestic Credit Agreement") with a syndicate of lenders. Pursuant to the Amended Domestic Credit Agreement, the Borrowers have borrowed two senior secured term loan facilities having original principal amounts of $1.0 billion and $750 million (the "Term Loan" and "2016 Term Loan," respectively). The Amended Domestic Credit Agreement currently provides for a $1.5 billion asset-based revolving credit facility (the "Revolving Facility") with a $1.0 billion letter of credit sub-facility, which matures on July 20, 2020. The Term Loan had an original maturity of June 30, 2018 and the 2016 Term Loan matures on July 20, 2020. In December 2017, the Company entered into an agreement to extend the maturity of the Term Loan to January 20, 2019, with the option to further extend the maturity to July 20, 2019, subject to certain conditions, including payment of an extension fee equal to 2.0% of the principal amount of the Term Loan outstanding at the time of such extension. The Amended Domestic Credit Agreement includes an accordion feature that allows the Borrowers to use, subject to borrowing base requirements, existing collateral for the facility to obtain up to $1.0 billion of additional borrowing capacity, of which $750 million was utilized for the 2016 Term Loan (described below). The Amended Domestic Credit Agreement also includes a FILO tranche feature that allows up to an additional $500 million of borrowing capacity and allows Holdings and its subsidiaries to undertake short-term borrowings outside the facility up to $1.0 billion. In February 2018, the Borrowers entered into an amendment that increased the size of the general debt basket to $1.25 billion.

On March 21, 2018, the Company, through the Borrowers, entered into a fifth amendment (the "Fifth Amendment") and a sixth amendment (the "Sixth Amendment") to the Amended Domestic Credit Agreement pursuant to which the Borrowers borrowed a $125 million FILO term loan (the "FILO Loan") and made certain other changes to the Amended Domestic Credit Agreement. The FILO Loan matures on July 20, 2020. The FILO Loan bears interest at a rate per annum equal to the Eurodollar Rate plus a margin of 8.50% (subject to a floor of 1.50%) (or a base rate plus a margin of 7.50%). The Borrowers are required to pay an early repayment premium of the greater of a make-whole through eight months and 3.00% in the event the FILO Loan is repaid within the first year, and 2.00% in the event the FILO Loan is repaid within the second year. The FILO Loan is guaranteed by the same guarantors and secured by the same assets as the existing loans under the Amended Domestic Credit Agreement, but ranks junior in right of recovery from the collateral relative to such existing loans. The Company paid a fee of 2.25% of the FILO Loan to the initial lenders of the FILO Loan. The initial lenders of the FILO Loan include JPP, LLC and JPP II, LLC, entities affiliated with ESL, and Benefit Street 2018 LLC, an entity affiliated with Thomas J. Tisch. The Company received approximately $122 million in net proceeds from the FILO Loan, which proceeds were using to reduce outstanding borrowings under our revolving credit facility. The carrying value of the FILO Loan, net of the remaining discount and debt issuance costs, was $122 million at August 4, 2018.

Revolving advances under the Amended Domestic Credit Agreement bear interest at a rate equal to, at the election of the Borrowers, either the London Interbank Offered Rate ("LIBOR") or a base rate, in either case plus an applicable margin dependent on Holdings' consolidated leverage ratio (as measured under the Amended Domestic Credit Agreement). The margin with respect to borrowings ranges from 3.50% to 4.00% for LIBOR loans and from 2.50% to 3.00% for base rate loans. The Amended Domestic Credit Agreement also provides for the payment of fees with respect to issued and undrawn letters of credit at a rate equal to the margin applicable to LIBOR loans and a commitment fee with respect to unused amounts of the Revolving Facility at a rate equal to 0.625% per annum.

The Revolving Facility is in place as a funding source for general corporate purposes and is secured by a first lien on substantially all of our domestic inventory and credit card and pharmacy receivables, and is subject to a borrowing base formula to determine availability. The Revolving Facility is guaranteed by all domestic subsidiaries of Holdings that own inventory or credit card or pharmacy receivables. The Revolving Facility also permits aggregate second lien indebtedness of up to $2.0 billion, of which $1.1 billion in second lien indebtedness was outstanding at August 4, 2018, resulting in $0.9 billion of permitted second lien indebtedness, subject to limitations contained in our other outstanding indebtedness. If, through asset sales or other means, the value of the above eligible assets is not sufficient to support borrowings of up to the full amount of the commitments under this facility, we will not have full access to the facility, but rather could have access to a lesser amount determined by the borrowing base. Such a decline in the value of eligible assets also could result in our inability to borrow up to the full amount of second lien indebtedness permitted by the domestic credit facility, but rather we could be limited to borrowing a lesser amount determined by the borrowing base as calculated pursuant to the terms of such indenture.

The Term Loan bears interest at a rate equal to, at the election of the Borrowers, either LIBOR (subject to a 1.00% LIBOR floor) or a base rate, plus an applicable margin for LIBOR loans of 4.50% and for base rate loans of 3.50%. Currently, the Borrowers are required to repay the Term Loan in quarterly installments of $2.5 million, with the remainder of the Term Loan maturing January 20, 2019, subject to the right of the Borrowers to extend the maturity to July 20, 2019. Additionally, the Borrowers are required to make certain mandatory repayments of the Term Loan from excess cash flow (as defined in the Amended Domestic Credit Agreement). The Term Loan may be prepaid in whole or part without penalty. The Term Loan is secured by the same collateral as the Revolving Facility on a pari passu basis with the Revolving Facility, and is guaranteed by the same subsidiaries of the Company that guarantee the Revolving Facility. At August 4, 2018, July 29, 2017 and February 3, 2018, respectively, we had borrowings of $98 million, $727 million and $400 million under the Term Loan, and carrying value, net of the remaining discount and debt issuance costs, of $94 million, $723 million and $391 million. The Company repaid the Term Loan during August 2018, resulting in no borrowings outstanding as of the date of this report. A portion of the proceeds received from the Craftsman Sale were used to reduce outstanding borrowings under the Term Loan during 2017.

Amounts borrowed pursuant to the 2016 Term Loan bear interest at a rate equal to LIBOR plus 750 basis points, subject to a 1.00% LIBOR floor. The Company received approximately $722 million in net proceeds from the 2016 Term Loan, which proceeds were used to reduce outstanding borrowings under its asset-based revolving credit facility. The 2016 Term Loan has a maturity date of July 20, 2020, which is the same maturity date as the Company's revolving credit facility commitments, and does not amortize. The 2016 Term Loan is subject to a prepayment

premium of 2% of the aggregate principal amount of the 2016 Term Loan prepaid on or prior to April 8, 2017 and 1% of the aggregate principal amount of the 2016 Term Loan prepaid after April 8, 2017 and on or prior to April 8, 2018. The obligations under the Amended Domestic Credit Agreement, including the 2016 Term Loan, are secured by a first lien on substantially all of the domestic inventory and credit card and pharmacy receivables of the Company and its subsidiaries and aggregate advances under the Amended Domestic Credit Agreement are subject to a borrowing base formula. The carrying value of the 2016 Term Loan, net of the remaining discount and debt issuance costs, was $561 million, $555 million and $559 million at August 4, 2018, July 29, 2017 and February 3, 2018, respectively. A portion of the proceeds received from the Craftsman Sale were also used to reduce outstanding borrowings under the 2016 Term Loan during 2017.

The Amended Domestic Credit Agreement limits our ability to make restricted payments, including dividends and share repurchases, subject to specified exceptions that are available if, in each case, no event of default under the credit facility exists immediately before or after giving effect to the restricted payment. These include exceptions that require that projected availability under the credit facility, as defined, to be at least 15%, exceptions that may be subject to certain maximum amounts and an exception that requires that the restricted payment is funded from cash on hand and not from borrowings under the credit facility. Further, the Amended Domestic Credit Agreement includes customary covenants that restrict our ability to make dispositions, prepay debt and make investments, subject, in each case, to various exceptions. The Amended Domestic Credit Agreement also imposes various other requirements, which take effect if availability falls below designated thresholds, including a cash dominion requirement and a requirement that the fixed charge ratio at the last day of any quarter be not less than 1.0 to 1.0. As of August 4, 2018, our fixed charge ratio continues to be less than 1.0 to 1.0, and we are subject to these other requirements based on our availability. If availability under the domestic revolving credit facility were to fall below 10%, the Company would be required to test the fixed charge coverage ratio, and would not comply with the facility, and the lenders under the facility could demand immediate payment in full of all amounts outstanding and terminate their obligations under the facility. In addition, the domestic credit facility provides that in the event we make certain prepayments of indebtedness, for a period of one year thereafter we must maintain availability under the facility of at least 12.5%, and it prohibits certain other prepayments of indebtedness.

At August 4, 2018, July 29, 2017 and February 3, 2018, we had $660 million, $216 million and $271 million, respectively, of Revolving Facility borrowings and $120 million, $389 million and $377 million at August 4, 2018, July 29, 2017 and February 3, 2018, respectively, of letters of credit outstanding under the Revolving Facility. At August 4, 2018, July 29, 2017 and February 3, 2018, the amount available to borrow under the Revolving Facility was $98 million, $191 million and $69 million, respectively, which reflects the effect of the springing fixed charge coverage ratio covenant and the borrowing base limitation. The majority of the letters of credit outstanding are used to provide collateral for our insurance programs.

Second Lien Credit Agreement

On September 1, 2016, the Company, SRAC, and Kmart Corporation (together with SRAC, the "ABL Borrowers") entered into a Second Lien Credit Agreement with the Lenders thereunder, entities affiliated with ESL, pursuant to which the ABL Borrowers borrowed $300 million under a term loan (the "Second Lien Term Loan"). The Company received net proceeds of $291 million, which were used for general corporate purposes.

The maturity date for the Second Lien Term Loan is July 20, 2020 and the Second Lien Term Loan will not amortize. The Second Lien Term Loan bears interest at a rate equal to, at the election of the ABL Borrowers, either LIBOR (subject to a 1.00% floor) or a specified prime rate ("Base Rate"), in either case plus an applicable margin. The margin with respect to the Second Lien Term Loan is 7.50% for LIBOR loans and 6.50% for Base Rate loans.

The Second Lien Credit Agreement was amended on July 7, 2017, providing an uncommitted line of credit facility under which subsidiaries of the Company may from time to time borrow line of credit loans ("Line of Credit Loans") with maturities less than 180 days, subject to applicable borrowing base limitations, in an aggregate principal amount not to exceed $500 million at any time outstanding. In February 2018, the Second Lien Credit Agreement was further amended to, among other things, increase the maximum aggregate principal amount of the Line of Credit Loans to $600 million, extend the maximum duration of the Line of Credit Loans to 270 days and increase the size of the general debt basket to $1.25 billion. During 2017, the Company received aggregate proceeds of $610 million from the issuance of Line of Credit Loans from various lenders, some of which are entities affiliated with ESL, Bruce R. Berkowitz, and Thomas J. Tisch. The Company made repayments of $110 million during 2017,

some of which were to related parties. During 2018, the Company received an additional $70 million from the issuance of Line of Credit Loans from ESL. See Note 11 for further information. The proceeds were used for the repayment of indebtedness and general corporate purposes.

The Second Lien Credit Agreement was further amended on January 9, 2018. This amendment amended the borrowing base definition in the Second Lien Credit Agreement to increase the advance rate for inventory to 75% from 65% and also deferred the collateral coverage test for purposes of the mandatory repayment covenant in the Second Lien Credit Agreement such that no such mandatory repayment can be required until the end of the third quarter of 2018. In connection with the closing of the Exchange Offers, the Company also entered into an amendment to its Second Lien Credit Agreement. The amendment provides the Company with the option to pay interest on its outstanding $300 million principal amount Second Lien Term Loan in kind, and also provides that the Company's obligation under the term loan is convertible into common stock of the Company, on the same conversion terms as the New Senior Secured Notes (as defined below).

Following consummation of the Exchange Offers, the Company's obligations under the Second Lien Credit Agreement are secured on a pari passu basis with the Company’s obligations under that certain Indenture, dated as of March 20, 2018, pursuant to which the Company issued its New Senior Secured Notes. The collateral includes inventory, receivables and other related assets of the Company and its subsidiaries which are obligated on the Second Lien Term Loan and the New Senior Secured Notes. The Second Lien Credit Agreement is guaranteed by all domestic subsidiaries of the Company that guarantee the Company’s obligations under its existing Revolving Facility.

On July 5, 2018, the Company and the other parties thereto entered into a Fifth Amendment (the "Second Lien Credit Agreement Amendment") to the Second Lien Credit Agreement. The Second Lien Credit Agreement Amendment provides for the incurrence by the Company of approximately $45 million of alternative tranche line of credit loans (the "New Loans") in exchange for a like principal amount of the Company’s outstanding 6 5/8% Senior Secured Notes due 2018, which notes were canceled.

The New Loans mature on October 15, 2018, which was the same maturity date of the Old Senior Secured Notes (as defined below). Amounts outstanding under the New Loans may be prepaid at any time, subject to a make-whole prepayment premium. The New Loans bear interest at a rate equal to 6 5/8% per annum, which was the same rate as the Old Senior Secured Notes. Interest on the New Loans is payable from April 15, 2018 on the maturity date of the New Loans. The New Loans otherwise generally have similar terms to the existing loans under the Second Lien Credit Agreement; provided that the lenders under the New Loans benefit from certain additional covenants. The New Loans are guaranteed by SRAC, Kmart and the other subsidiaries of the Company that guarantee the existing loans under the Second Lien Credit Agreement and are secured by the same assets of the Company and its subsidiaries that secure the existing loans under the Second Lien Credit Agreement.

The Second Lien Credit Agreement includes representations and warranties, covenants and other undertakings, and events of default that are substantially similar to those contained in the Amended Domestic Credit Agreement. The Second Lien Credit Agreement requires the ABL Borrowers to prepay amounts outstanding under the Amended Domestic Credit Agreement and/or the Second Lien Credit Agreement in order to avoid a Collateral Coverage Event (as defined below). The carrying value of the Second Lien Term Loan, net of the remaining debt issuance costs, was $308 million, $293 million and $294 million at August 4, 2018, July 29, 2017 and February 3, 2018, respectively. The carrying value includes paid-in-kind interest of $12 million at August 4, 2018. The carrying value of the Line of Credit Loans, including the New Loans, was $570 million, $330 million and $500 million at August 4, 2018, July 29, 2017 and February 3, 2018, respectively.

Old Senior Secured Notes and New Senior Secured Notes

In October 2010, we sold $1.0 billion aggregate principal amount of senior secured notes (the "Old Senior Secured Notes"), which bear interest at 6 5/8% per annum and mature on October 15, 2018. Concurrent with the closing of the sale of the Old Senior Secured Notes, the Company sold $250 million aggregate principal amount of Old Senior Secured Notes to the Company's domestic pension plan in a private placement, none of which remain in the domestic pension plan as a result of the Tender Offer discussed below. The Old Senior Secured Notes are guaranteed by certain subsidiaries of the Company and are secured by a security interest in certain assets consisting primarily of domestic inventory and receivables (the "Collateral"). The lien that secures the Old Senior Secured Notes is junior in

priority to the liens on such assets that secure obligations under the Amended Domestic Credit Agreement, as well as certain other first priority lien obligations, and, following consummation of the Exchange Offers, obligations under the indenture relating to the New Senior Secured Notes. The Company used the net proceeds of this offering to repay borrowings outstanding under a previous domestic credit agreement on the settlement date and to fund the working capital requirements of our retail businesses, capital expenditures and for general corporate purposes. Prior to consummation of the Exchange Offers, the indenture under which the Old Senior Secured Notes (the "Old Senior Secured Notes Indenture") were issued contained restrictive covenants that, among other things, (1) limited the ability of the Company and certain of its domestic subsidiaries to create liens and enter into sale and leaseback transactions and (2) limited the ability of the Company to consolidate with or merge into, or sell other than for cash or lease all or substantially all of its assets to, another person. The indenture also provided for certain events of default, which, if any were to occur, would permit or require the principal and accrued and unpaid interest on all the then outstanding Old Senior Secured Notes to be due and payable immediately. In connection with the consummation of the Exchange Offers, we entered into a supplemental indenture to the Old Senior Secured Notes Indenture that eliminated substantially all of the restrictive covenants and certain events of default in the Old Senior Secured Notes Indenture. The supplemental indenture, among other things, eliminated the obligation of the Company to offer to repurchase all outstanding Old Senior Secured Notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest, if the borrowing base (as calculated pursuant to the indenture) falls below the principal value of the Old Senior Secured Notes plus any other indebtedness for borrowed money that is secured by liens on the Collateral for two consecutive quarters or upon the occurrence of certain change of control triggering events. The Company may call the Old Senior Secured Notes at a premium based on the "Treasury Rate" as defined in the indenture, plus 50 basis points.

On January 9, 2018, the Company and certain of its subsidiaries entered into a Fourth Supplemental Indenture (the "Supplemental Indenture") with Wilmington Trust, National Association, as successor trustee and collateral agent, amending the Old Senior Secured Notes Indenture. The Supplemental Indenture amended the borrowing base definition in the Old Senior Secured Notes Indenture to increase the advance rate for inventory to 75% from 65%. The Supplemental Indenture also defers the collateral coverage test for purposes of the repurchase offer covenant in the Indenture and restarts it with the second quarter of 2018 (such that no collateral coverage event can occur until the end of the third quarter of 2018).

The carrying value of Old Senior Secured Notes, net of the remaining discount and debt issuance costs, was $89 million, $303 million and $303 million at August 4, 2018, July 29, 2017 and February 3, 2018, respectively. The carrying value of Old Senior Secured Notes is included within current portion of long-term debt in the Condensed Consolidated Balance Sheets at August 4, 2018.

In February 2018, the Company commenced the Exchange Offers pursuant to which it offered to issue in exchange for its outstanding Senior Secured Notes new 6 5/8% Senior Secured Notes Due 2019, of a like principal amount, convertible into common stock of the Company, with interest on such notes to be payable in kind at the Company's option. The Exchange Offers expired on March 15, 2018. Approximately $169.8 million principal amount of the Senior Secured Notes were validly tendered, accepted and canceled, including $20 million principal amount of Old Senior Secured Notes held by ESL, and the Company issued a like principal amount of New Senior Secured Notes. The New Senior Secured Notes are optionally convertible by the holders thereof into shares of the Company's common stock at a conversion price of $5.00 per share of common stock, and are mandatorily convertible at the Company's option if the volume weighted average trading price of the common stock on the NASDAQ exceeds $10.00 for a prescribed period. The New Senior Secured Notes bear interest at a rate of 6.625% per annum and the Company will pay interest semi-annually on April 15 and October 15 of each year, which interest may, at the option of the Company, be paid in kind. The New Senior Secured Notes mature in October 2019.

The New Senior Secured Notes are guaranteed by certain subsidiaries of the Company and are secured by a security interest in the Collateral. The lien that secures the New Senior Secured Notes is junior in priority to the liens on such assets that secure obligations under the Amended Domestic Credit Agreement, as well as certain other first priority lien obligations, and senior to the lien on such assets that secure obligations under the Old Senior Secured Notes Indenture. The indenture under which the New Senior Secured Notes (the "New Senior Secured Notes Indenture") were issued contains restrictive covenants that, among other things, (1) limit the ability of the Company and certain of its domestic subsidiaries to create liens and enter into sale and leaseback transactions and (2) limit the ability of the Company to consolidate with or merge into, or sell other than for cash or lease all or substantially all of its assets

to, another person. The New Senior Secured Notes Indenture also provides for certain events of default, which, if any were to occur, would permit or require the principal and accrued and unpaid interest on all the then outstanding New Senior Secured Notes to be due and payable immediately. The New Senior Secured Notes Indenture also requires the Company to offer to repurchase all outstanding New Senior Secured Notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest, if the borrowing base (as calculated pursuant to the indenture) falls below the principal value of the New Senior Secured Notes plus any other indebtedness for borrowed money that is secured by liens on the Collateral for two consecutive quarters or upon the occurrence of certain change of control triggering events. As of August 4, 2018, our borrowing base was below the above threshold, and if our borrowing base is below the above threshold at the end of our third quarter of 2018, it would trigger an obligation to repurchase or repay second lien debt, in an amount equal to the excess of our funded debt secured by liens on our inventory as of November 3, 2018 over the borrowing base.

The carrying value of New Senior Secured Notes, net of the remaining discount and debt issuance costs, was $175 million at August 4, 2018. The carrying value includes paid-in-kind interest of $6 million at August 4, 2018.

Old Senior Unsecured Notes and New Senior Unsecured Notes

On October 20, 2014, the Company announced its Board of Directors had approved a rights offering allowing its stockholders to purchase up to $625 million in aggregate principal amount of 8% senior unsecured notes due 2019 and warrants to purchase shares of its common stock. The subscription rights were distributed to all stockholders of the Company as of October 30, 2014, the record date for this rights offering, and every stockholder had the right to participate on the same terms in accordance with its pro rata ownership of the Company's common stock, except that holders of the Company's restricted stock that was unvested as of the record date received cash awards in lieu of subscription rights. This rights offering closed on November 18, 2014 and was oversubscribed.

Accordingly, on November 21, 2014, the Company issued $625 million aggregate original principal amount of 8% senior unsecured notes due 2019 (the "Old Senior Unsecured Notes") and received proceeds of $625 million which were used for general corporate purposes. The Old Senior Unsecured Notes are the unsecured and unsubordinated obligations of the Company and rank equal in right of payment with the existing and future unsecured and unsubordinated indebtedness of the Company. The Old Senior Unsecured Notes bear interest at a rate of 8% per annum and the Company will pay interest semi-annually on June 15 and December 15 of each year. The Old Senior Unsecured Notes are not guaranteed.

We accounted for the Old Senior Unsecured Notes in accordance with accounting standards applicable to distinguishing liabilities from equity and debt with conversion and other options. Accordingly, we allocated the proceeds received for the Old Senior Unsecured Notes based on the relative fair values of the Old Senior Unsecured Notes and warrants, which resulted in a discount to the notes of approximately $278 million. The fair value of the Old Senior Unsecured Notes and warrants was estimated based on quoted market prices for the same issues using Level 1 measurements as defined in Note 5 of our Annual Report on Form 10-K for the fiscal year ended February 3, 2018. The discount is being amortized over the life of the Old Senior Unsecured Notes using the effective interest method with an effective interest rate of 11.55%. Approximately $24 million and $26 million of the discount was amortized during the 26 week periods ended August 4, 2018 and July 29, 2017, respectively. The remaining discount was approximately $71 million, $169 million and $140 million at August 4, 2018, July 29, 2017 and February 3, 2018, respectively. The carrying value of the Old Senior Unsecured Notes, net of the remaining discount and debt issuance costs, was approximately $340 million, $454 million and $483 million at August 4, 2018, July 29, 2017 and February 3, 2018, respectively.

In February 2018, the Company commenced the Exchange Offers, pursuant to which it offered to issue in exchange for its outstanding Senior Unsecured Notes new 8% Senior Unsecured Notes Due 2019, of a like principal amount, convertible into common stock of the Company, with interest on such notes to be payable in kind at the Company's option. The Exchange Offers expired on March 15, 2018. Approximately $214 million principal amount of the Old Senior Unsecured Notes were validly tendered, accepted and canceled, including $187.6 million principal amount of Old Senior Unsecured Notes by ESL, and the Company issued a like principal amount of New Senior Unsecured Notes. The New Senior Unsecured Notes are optionally convertible by the holders thereof into shares of the Company’s common stock at a conversion price of $8.33 per share of common stock, and are mandatorily convertible at the Company's option if the volume weighted average trading price of the common stock on the NASDAQ exceeds $10.00 for a prescribed period.

The New Senior Unsecured Notes are the unsecured and unsubordinated obligations of the Company and rank equal in right of payment with the existing and future unsecured and unsubordinated indebtedness of the Company. The New Senior Unsecured Notes bear interest at a rate of 8% per annum and the Company will pay interest semi-annually on June 15 and December 15 of each year, which interest may, at the option of the Company, be paid in kind. The New Senior Unsecured Notes are not guaranteed.

The Company allocated $45 million of the remaining discount from the Old Senior Unsecured Notes to the New Senior Unsecured Notes. Approximately $8 million of the discount was amortized during the 26 week period ended August 4, 2018. The remaining discount was approximately $37 million at August 4, 2018. The carrying value of the New Senior Unsecured Notes, net of the remaining discount and debt issuance costs, was approximately $185 million at August 4, 2018. The carrying value includes paid-in-kind interest of $9 million at August 4, 2018.

Wholly-owned Insurance Subsidiary and Intercompany Securities

We have numerous types of insurable risks, including workers' compensation, product and general liability, automobile, warranty, asbestos and environmental claims and the extended service contracts we sell to our customers. Certain of the associated risks are managed through Holdings' wholly-owned insurance subsidiary, Sears Reinsurance Company Ltd. ("Sears Re"), a Bermuda Class 3 insurer.

In accordance with applicable insurance regulations, Sears Re holds marketable securities to support the insurance coverage it provides. Sears has utilized two securitization structures to issue specific securities in which Sears Re has invested its capital to fund its insurance obligations. In November 2003, Sears formed a Real Estate Mortgage Investment Conduit, or REMIC. The real estate associated with 138 properties was contributed to indirect wholly-owned subsidiaries of Sears, and then leased back to Sears. The contributed properties were mortgaged and the REMIC issued to wholly-owned subsidiaries of Sears (including Sears Re) $1.3 billion (par value) of securities (the "REMIC Securities") that were secured by the mortgages and collateral assignments of the store leases. Payments to the holders on the REMIC Securities were funded by the lease payments. In March 2018, in connection with the Credit Agreement and Mezzanine Loan Agreement described above, the REMIC was unwound and the REMIC Securities were extinguished.

In May 2006, a subsidiary of Holdings contributed the rights to use the Kenmore, Craftsman and DieHard trademarks in the U.S. and its possessions and territories to KCD IP, LLC, an indirect wholly-owned subsidiary of Holdings. KCD IP, LLC has licensed the use of the trademarks to subsidiaries of Holdings, including Sears and Kmart. Asset-backed securities with a par value of $1.8 billion (the "KCD Securities") were issued by KCD IP, LLC and subsequently purchased by Sears Re, the collateral for which includes the trademark rights and royalty income. Payments to the holders on the KCD Securities are funded by the royalty payments. In connection with the Craftsman Sale, KCD Securities with par value of $900 million were redeemed in March 2017.

The issuers of the REMIC Securities and KCD Securities and the owners of these real estate and trademark assets are bankruptcy remote, special purpose entities that are indirect wholly-owned subsidiaries of Holdings. Cash flows received from rental streams and licensing fee streams paid by Sears, Kmart, other affiliates and third parties, are used for the payment of fees and interest on these securities, through the extinguishment of the REMIC Securities in March 2018. Since the inception of the REMIC and KCD IP, LLC, the REMIC Securities and the KCD Securities have been entirely held by our wholly-owned consolidated subsidiaries, through the extinguishment of the REMIC Securities in March 2018. At each of August 4, 2018, July 29, 2017 and February 3, 2018, the net book value of the securitized trademark rights was approximately $0.7 billion. The net book value of the securitized real estate assets was approximately $0.6 billion and $0.5 billion at July 29, 2017 and February 3, 2018, respectively.

Trade Creditor Matters

We have ongoing discussions concerning our liquidity and financial position with the vendor community and third parties that offer various credit protection services to our vendors. The topics discussed have included such areas as pricing, payment terms and ongoing business arrangements. As of the date of this report, we have not experienced any significant disruption in our access to merchandise or our operations.

NOTE 3—STORE CLOSING CHARGES, SEVERANCE COSTS, IMPAIRMENTS AND REAL ESTATE TRANSACTIONS

Store Closings and Severance

We closed five stores in our Kmart segment and 24 stores in our Sears Domestic segment during the 13 week period ended August 4, 2018, and 72 stores in our Kmart segment and 65 stores in our Sears Domestic segment during the 26 week period ended August 4, 2018. An additional 43 stores in our Kmart segment and 106 stores in our Sears Domestic segment will close during the second half of 2018 that we previously announced would close.

We closed 14 stores in our Kmart segment and seven stores in our Sears Domestic segment during the 13 week period ended July 29, 2017, and 125 stores in our Kmart segment and 51 stores in our Sears Domestic segment during the 26 week period ended July 29, 2017.

In accordance with accounting standards governing costs associated with exit or disposal activities, expenses related to future rent payments for which we no longer intend to receive any economic benefit are accrued for when we cease to use the leased space and have been reduced for any estimated sublease income. We expect to record additional charges of approximately $75 million during 2018 related to stores that we had previously made the decision to close, but have not yet closed.

Store closing costs and severance recorded for the 13- and 26- week periods ended August 4, 2018 and July 29, 2017 were as follows:

millions	Markdowns[1]	Severance Costs[2]	Lease Termination Costs[2]	Other Charges[2]	Impairment and Accelerated Depreciation[3]	Total Store Closing Costs
Kmart	$ 17	$ 1	$ (7)	$ 2	$ —	$ 13
Sears Domestic	26	10	9	6	10	61
Total for the 13 week period ended August 4, 2018	$ 43	$ 11	$ 2	$ 8	$ 10	$ 74
Kmart	$ 68	$ 8	$ (18)	$ 10	$ 4	$ 72
Sears Domestic	21	23	10	6	4	64
Total for the 13 week period ended July 29, 2017	$ 89	$ 31	$ (8)	$ 16	$ 8	$ 136
Kmart	$ 14	$ 2	$ 22	$ 3	$ 1	$ 42
Sears Domestic	38	13	40	8	13	112
Total for the 26 week period ended August 4, 2018	$ 52	$ 15	$ 62	$ 11	$ 14	$ 154
Kmart	$ 78	$ 13	$ (2)	$ 13	$ 5	$ 107
Sears Domestic	26	34	35	7	9	111
Total for the 26 week period ended July 29, 2017	$ 104	$ 47	$ 33	$ 20	$ 14	$ 218

(1) Recorded within cost of sales, buying and occupancy in the Condensed Consolidated Statements of Operations.
(2) Recorded within selling and administrative in the Condensed Consolidated Statements of Operations. Lease termination costs are net of estimated sublease income, and include the reversal of closed store reserves for which the lease agreement has been terminated and the reversal of deferred rent balances related to closed stores.
(3) Recorded within depreciation and amortization in the Condensed Consolidated Statements of Operations.

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

Store closing costs and severance accruals of $246 million, $228 million and $261 million at August 4, 2018, July 29, 2017 and February 3, 2018 respectively, were as shown in the table below. Store closing accruals included $123 million, $128 million and $126 million within other current liabilities and $123 million, $100 million and $135 million within other long-term liabilities in the Condensed Consolidated Balance Sheets at August 4, 2018, July 29, 2017, and February 3, 2018, respectively.

millions	Severance Costs	Lease Termination Costs	Other Charges	Total
Balance at July 29, 2017	$ 48	$ 162	$ 18	$ 228
Store closing costs	36	109	12	157
Store closing capital lease obligations	—	8	—	8
Payments/utilizations	(35)	(79)	(18)	(132)
Balance at February 3, 2018	49	200	12	261
Store closing costs	15	72	11	98
Payments/utilizations	(29)	(69)	(15)	(113)
Balance at August 4, 2018	$ 35	$ 203	$ 8	$ 246

Long-Lived Assets and Indefinite-Lived Intangible Assets

In accordance with accounting standards governing the impairment or disposal of long-lived assets, we performed an impairment test of certain of our long-lived assets due to events and changes in circumstances during the 13- and 26- week periods ended August 4, 2018 that indicated an impairment might have occurred. As a result of impairment testing, the Company recorded impairment charges of $8 million, which was recorded within the Sears Domestic segment during the 13 week period ended August 4, 2018, and $22 million, of which $16 million and $6 million were recorded within the Sears Domestic and Kmart segments, respectively, during the 26 week period ended August 4, 2018.

As a result of impairment testing, the Company recorded impairment charges of $5 million, of which $2 million and $3 million were recorded within the Sears Domestic and Kmart segments, respectively, during the 13 week period ended July 29, 2017, and $20 million, of which $12 million and $8 million were recorded within the Sears Domestic and Kmart segments, respectively, during the 26 week period ended July 29, 2017.

In our quarterly report on Form 10-Q filed for the first quarter of 2018, the Company disclosed that impairment charges may be recognized in future periods to the extent changes in factors or circumstances occur, including changes that occur as a result of the formal process of the Special Committee to explore the sale of the Sale Assets. On August 14, 2018, the Special Committee received a non-binding proposal from ESL to acquire the Kenmore brand and related assets for $400 million, which is below the carrying value of the Kenmore trade name at August 4, 2018. The Special Committee is evaluating the non-binding proposal, and potentially other proposals, as part of its formal process. In addition to receipt of the non-binding proposal, due to the decline in revenues Kenmore experienced in the first half of 2018, we determined indications of potential impairment exist with respect to the Kenmore trade name and accordingly performed an impairment assessment. The fair value determined as a result of our impairment assessment was derived using the relief from royalty method, which is a specific application of the discounted-cash-flow method, which is a form of the income approach. The relief from royalty method requires inputs considered level 3 under the fair value hierarchy and assumptions related to projected revenues; assumed royalty rates that could be payable if the Company did not own the asset; and a discount rate. These estimates include assumptions that are based on historical data, management forecasts, and a variety of external sources. As a result of our impairment assessment, we recorded an impairment charge related to the Kenmore trade name of $69 million during the 13- and 26- week periods ended August 4, 2018. The impairment is recorded within the Sears Domestic segment and included within impairment charges on our Condensed Consolidated Statement of Operations.

Further indefinite-lived intangible impairment charges may be recognized in future periods to the extent changes in factors or circumstances occur, including deterioration in the macroeconomic environment, retail industry,

deterioration in our performance or our future projections, if actual results are not consistent with our estimates and assumptions used in the analysis, or changes in our plans for one or more indefinite-lived intangible assets, including changes that occur as a result of the formal process of the Special Committee to explore the sale of the Sale Assets, such as if the Special Committee were to accept an offer for the acquisition of the Kenmore trade name at a price less than its carrying value. Further, our business is seasonal in nature, and we generate a higher portion of our revenues and operating cash flows during the fourth quarter of our fiscal year, which includes the holiday season. The intangible asset impairment analysis is particularly sensitive to changes in the projected revenue growth rate and the assumed weighted-average cost of capital. Changes to these key assumptions could result in revisions of management's estimates of the fair value of the indefinite-lived intangible assets and could result in impairment charges in the future, which could be material to our results of operations. We will continue to monitor for such changes in facts or circumstances, which may be indicators of potential impairment triggers, and may result in impairment charges in the future, which could be material to our results of operations.

Gain on Sales of Assets

We recognized $268 million and $1.1 billion in gains on sales of assets during the 26 weeks ended August 4, 2018 and July 29, 2017, respectively, which were primarily a result of several real estate transactions. Real estate transactions in 2018 included properties that served as collateral for our real estate facilities for which proceeds of $316 million were used to pay interest and a portion of the Secured Loan, Term Loan Facility, 2016 Secured Loan Facility, 2017 Secured Loan Facility, Incremental Loans and Consolidated Secured Loan Facility. Real estate transactions in 2017 included properties that served as collateral for our real estate facilities for which proceeds of $277 million were used to pay interest and a portion of the 2016 Secured Loan Facility and 2017 Secured Loan Facility. Gains in 2017 also included a gain of $492 million in connection with the Craftsman Sale, which is further described in Note 1.

Seritage Transaction and JV Transactions

On April 1, 2015, April 13, 2015 and April 30, 2015, Holdings and General Growth Properties, Inc. ("GGP"), Simon Property Group, Inc. ("Simon") and The Macerich Company ("Macerich"), respectively, announced that they entered into three distinct real estate joint ventures (collectively, the "JVs"). Holdings contributed 31 properties to the JVs where Holdings currently operates stores (the "JV properties"), in exchange for a 50% interest in the JVs and $429 million in cash ($426 million, net of closing costs) (the "JV transactions"). The JV transactions valued the JV properties at $858 million in the aggregate.

On July 7, 2015, Holdings completed its rights offering and sale-leaseback transaction (the "Seritage transaction") with Seritage Growth Properties ("Seritage"), an independent publicly traded real estate investment trust ("REIT"). As part of the Seritage transaction, Holdings sold 235 properties to Seritage (the "REIT properties") along with Holdings' 50% interest in the JVs. Holdings received aggregate gross proceeds from the Seritage transaction of $2.7 billion ($2.6 billion, net of closing costs). The Seritage transaction valued the REIT properties at $2.3 billion in the aggregate.

In connection with the Seritage transaction and JV transactions, Holdings entered into agreements with Seritage and the JVs under which Holdings initially leased 255 of the properties (the "Master Leases"), with the remaining properties being leased by Seritage to third parties. Holdings has closed 39 stores pursuant to recapture notices from Seritage or the JVs and 65 stores pursuant to lease terminations. An additional 33 stores will close in 2018 pursuant to lease terminations and recapture notices. Also, in July 2017, Seritage sold a 50% joint venture interest in five of the properties and Holdings will pay rent to the new landlord.

We accounted for the Seritage transaction and JV transactions in accordance with accounting standards applicable to real estate sales and sale-leaseback transactions. We determined that the Seritage and JV transactions qualify for sales recognition and sale-leaseback accounting, with the exception of four properties for which we had continuing involvement as a result of an obligation to redevelop the stores for a third-party tenant and pay rent on behalf of the third-party tenant until it commenced rent payments to the JVs.

With the exception of the four properties that had continuing involvement, in accordance with accounting standards related to sale-leaseback transactions, Holdings recognized any loss on sale immediately, any gain on sale in excess of the present value of minimum lease payments immediately, and any remaining gain was deferred and will be

recognized in proportion to the related rent expense over the lease term. Accordingly, during the second quarter of 2015, Holdings recognized an immediate net gain of $508 million within gain on sales of assets in the Consolidated Statement of Operations for 2015. The remaining gain of $894 million was deferred and will be recognized in proportion to the related rent expense, which is a component of cost of sales, buying and occupancy, in the Condensed Consolidated Statements of Operations, over the lease term.

During the 13- and 26- weeks ended August 4, 2018, respectively, Holdings recorded gains of $28 million and $68 million related to recapture and termination activity in connection with REIT properties and JV properties. During the 13- and 26- weeks ended July 29, 2017, respectively, Holdings recorded gains of $36 million and $78 million related to recapture and termination activity in connection with REIT properties and JV properties. The Master Leases provide Seritage and the JVs rights to recapture 100% of certain stores. The Master Leases also provide Seritage and the JVs a recapture right with respect to approximately 50% of the space within the stores at the REIT properties and JV properties (subject to certain exceptions), in addition to all of the automotive care centers, all outparcels or outlots, and certain portions of parking areas and common areas, except as set forth in the Master Leases, for no additional consideration. As space is recaptured pursuant to the recapture right, Holdings' obligation to pay rent is reduced proportionately. Accordingly, Holdings recognizes gains equal to the unamortized portion of the gain that had previously been deferred which exceeds the present value of minimum lease payments, as reduced due to recapture activity. The Master Leases also provide Holdings certain rights to terminate the Master Leases with respect to REIT properties or JV properties that cease to be profitable for operation. In order to terminate the Master Lease for a certain property, Holdings must make a payment to Seritage or the JV of an amount equal to one year of rent (together with taxes and other expenses) with respect to such property. The Company recognizes the corresponding expenses for termination payments to Seritage when we notify Seritage of our intention to terminate the leases and the stores are announced for closure. We recorded expense of $9 million and $20 million for termination payments to Seritage during the 13- and 26- weeks ended August 4, 2018, respectively, and $24 million during the 26 weeks ended July 29, 2017, of which $9 million and $24 million was reported as amounts payable to Seritage at August 4, 2018 and July 29, 2017, respectively.

Holdings also recorded immediate gains of $40 million during 2017, of which $17 million and $40 million was recorded during the 13- and 26- weeks ended July 29, 2017, respectively, for the amount of gains on sale in excess of the present value of minimum lease payments for two of the properties that were previously accounted for as financing transactions. As the redevelopment at the stores had been completed and the third-party tenant had commenced rent payments to the JVs, the Company determined that the continuing involvement no longer existed and that the properties qualified for sales recognition and sale-leaseback accounting.

Sale-Leaseback Financing Transactions

Holdings received cash proceeds for sale-leaseback financing transactions of $130 million and $89 million during the 26 weeks ended August 4, 2018 and July 29, 2017, respectively. We accounted for the other transactions as financing transactions in accordance with accounting standards applicable to sale-leaseback transactions as a result of other forms of continuing involvement, including an earn-out provision and the requirement to prepay rent for one year. Accordingly, Holdings recorded a sale-leaseback financing obligation of $347 million, $230 million and $247 million at August 4, 2018, July 29, 2017 and February 3, 2018, respectively, which is classified as a long-term sale-leaseback financing obligation in the Condensed Consolidated Balance Sheets. The sale-leaseback financing obligation related to the four properties that had continuing involvement decreased to $70 million at February 3, 2018 as two of the properties qualified for sales recognition and sale-leaseback accounting as further described above. Additionally, Holdings recorded immediate gains of $21 million during the 26 weeks ended August 4, 2018 for three properties that were previously accounted for as financing transactions as the leaseback ended and it was determined that sales recognition was appropriate. We continued to report real property assets of $100 million, $62 million and $66 million at August 4, 2018, July 29, 2017 and February 3, 2018, respectively, in our Condensed Consolidated Balance Sheets, which are included in our Sears Domestic segment.

Other Real Estate Transactions

In addition to the Seritage transaction, JV transactions and other sale-leaseback financing transactions described above, we recorded gains on the sales of assets for other significant items described as follows.

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

During the 13 week period ended August 4, 2018, we recorded gains on the sales of assets of $48 million recognized on the sale or amendment and lease termination of 16 Sears Full-line stores and two non-retail locations in our Sears Domestic segment for which we received $116 million cash proceeds. During the 13 week period ended August 4, 2018, we also recorded gains on the sales of assets of $23 million recognized on the sale or amendment and lease termination of three Kmart stores in our Kmart segment for which we received $33 million cash proceeds.

During the 26 week period ended August 4, 2018, we recorded gains on the sales of assets of $117 million recognized on the sale or amendment and lease termination of 25 Sears Full-line stores and six non-retail locations in our Sears Domestic segment for which we received $227 million cash proceeds. During the 26 week period ended August 4, 2018, we also recorded gains on the sales of assets of $40 million recognized on the sale or amendment and lease termination of 12 Kmart stores in our Kmart segment for which we received $51 million cash proceeds.

During the 13 week period ended July 29, 2017, we recorded gains on the sales of assets of $250 million recognized on the sale or amendment and lease termination of nine Sears Full-line stores in our Sears Domestic segment for which we received $276 million cash proceeds. During the 13 week period ended July 29, 2017, we also recorded gains on the sales of assets of $12 million recognized on the sale or amendment and lease termination of one Kmart store in our Kmart segment for which we received $20 million cash proceeds.

During the 26 week period ended July 29, 2017, we recorded gains on the sales of assets of $346 million recognized on the sale or amendment and lease termination of 12 Sears Full-line stores in our Sears Domestic segment for which we received $380 million cash proceeds. During the 26 week period ended July 29, 2017, we also recorded gains on the sales of assets of $40 million recognized on the sale or amendment and lease termination of two Kmart stores in our Kmart segment for which we received $48 million cash proceeds.

Certain sales of our properties had leaseback arrangements. We determined that the transactions with leaseback arrangements qualify for sales recognition and sale-leaseback accounting. In accordance with accounting standards related to sale-leaseback transactions, Holdings recognized any loss on sale immediately, any gain on sale in excess of the present value of minimum lease payments immediately, and any remaining gain was deferred and will be recognized in proportion to the related rent expense over the lease term. At August 4, 2018, July 29, 2017 and February 3, 2018, respectively, $161 million, $156 million and $138 million of the deferred gain on sale-leaseback is classified as current within other current liabilities, and $305 million, $455 million and $362 million is classified as long-term deferred gain on sale-leaseback in the Condensed Consolidated Balance Sheets. For the other transactions, we determined that we have surrendered substantially all of our rights and obligations, and, therefore, immediate gain recognition is appropriate.

Holdings recorded rent expense at properties with leaseback arrangements that have deferred gains of $14 million and $22 million within cost of sales, buying and occupancy in the Condensed Consolidated Statements of Operations for the 13 week periods ended August 4, 2018 and July 29, 2017, respectively, and $30 million and $44 million for the 26 week periods ended August 4, 2018 and July 29, 2017, respectively. Rent expense consisted of straight-line rent expense offset by amortization of deferred gain on sale-leaseback, as shown in the tables below.

	13 Weeks Ended August 4, 2018			13 Weeks Ended July 29, 2017		
millions	Kmart	Sears Domestic	Sears Holdings	Kmart	Sears Domestic	Sears Holdings
Straight-line rent expense	$ 5	$ 25	$ 30	$ 5	$ 36	$ 41
Amortization of deferred gain on sale-leaseback	(3)	(13)	(16)	(2)	(17)	(19)
Rent expense	$ 2	$ 12	$ 14	$ 3	$ 19	$ 22

	26 Weeks Ended August 4, 2018			26 Weeks Ended July 29, 2017		
millions	Kmart	Sears Domestic	Sears Holdings	Kmart	Sears Domestic	Sears Holdings
Straight-line rent expense	$ 9	$ 55	$ 64	$ 11	$ 73	$ 84
Amortization of deferred gain on sale-leaseback	(5)	(29)	(34)	(6)	(34)	(40)
Rent expense	$ 4	$ 26	$ 30	$ 5	$ 39	$ 44

NOTE 4—EQUITY

Loss per Share

The following table sets forth the components used to calculate basic and diluted loss per share attributable to Holdings' shareholders.

millions, except loss per share	13 Weeks Ended August 4, 2018	13 Weeks Ended July 29, 2017	26 Weeks Ended August 4, 2018	26 Weeks Ended July 29, 2017
Basic weighted average shares	108.5	107.3	108.3	107.2
Diluted weighted average shares	108.5	107.3	108.3	107.2
Net loss attributable to Holdings' shareholders	$ (508)	$ (250)	$ (932)	$ (5)
Loss per share attributable to Holdings' shareholders:				
Basic	$ (4.68)	$ (2.33)	$ (8.61)	$ (0.05)
Diluted	$ (4.68)	$ (2.33)	$ (8.61)	$ (0.05)

Accumulated Other Comprehensive Loss

The following table displays the components of accumulated other comprehensive loss:

millions	August 4, 2018	July 29, 2017	February 3, 2018
Pension and postretirement adjustments (net of tax of $(198), $(225), and $(225), respectively)	$ (817)	$ (1,372)	$ (1,071)
Currency translation adjustments (net of tax of $0 for all periods presented)	(1)	(2)	(1)
Accumulated other comprehensive loss	$ (818)	$ (1,374)	$ (1,072)

Pension and postretirement adjustments relate to the net actuarial loss on our pension and postretirement plans recognized as a component of accumulated other comprehensive loss.

Income Tax Expense Allocated to Each Component of Other Comprehensive Income

Income tax expense allocated to each component of other comprehensive income was as follows:

	13 Weeks Ended August 4, 2018			13 Weeks Ended July 29, 2017		
millions	Before Tax Amount	Tax Expense	Net of Tax Amount	Before Tax Amount	Tax Expense	Net of Tax Amount
Other comprehensive income						
Pension and postretirement adjustments[1]	$ 245	$ (27)	$ 218	$ 127	$ —	$ 127
Currency translation adjustments	(1)	—	(1)	—	—	—
Total other comprehensive income	$ 244	$ (27)	$ 217	$ 127	$ —	$ 127

	26 Weeks Ended August 4, 2018			26 Weeks Ended July 29, 2017		
millions	Before Tax Amount	Tax Expense	Net of Tax Amount	Before Tax Amount	Tax Expense	Net of Tax Amount
Other comprehensive income						
Pension and postretirement adjustments[1]	$ 281	$ (27)	$ 254	$ 177	$ —	$ 177
Currency translation adjustments	—	—	—	1	—	1
Total other comprehensive income	$ 281	$ (27)	$ 254	$ 178	$ —	$ 178

[1] Included in the computation of net periodic benefit expense. See Note 5 to the Condensed Consolidated Financial Statements.

NOTE 5—BENEFIT PLANS

Pension and Postretirement Benefit Plans

We provide benefits to certain associates who are eligible under various defined benefit pension plans, contributory defined benefit pension plans and other postretirement plans, primarily retiree medical benefits. For purposes of determining the periodic expense of our defined benefit plans, we use the fair value of plan assets as the market related value. The following table summarizes the components of total net periodic benefit expense, recorded within other loss in the Condensed Consolidated Statements of Operations, for our retirement plans:

	13 Weeks Ended		26 Weeks Ended	
millions	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Components of net periodic expense:				
Interest cost	$ 37	$ 45	$ 74	$ 98
Expected return on plan assets	(41)	(46)	(81)	(103)
Amortization of experience losses[1]	142	247	178	297
Net periodic expense	$ 138	$ 246	$ 171	$ 292

[1] Amortization of the experiences losses for the 13- and 26- weeks ended August 4, 2018 includes $108 million as a result of the lump sum settlement described below. Amortization of experience losses for the 13- and 26- weeks ended July 29, 2017 includes $200 million as a result of the pension annuity purchase described below.

Contributions

During the 13- and 26- week periods ended August 4, 2018, we made total contributions of $57 million and $343 million, respectively, to our pension and postretirement plans, including amounts contributed from the escrow created pursuant to the PPPFA. During the 13- and 26- week periods ended July 29, 2017, we made total contributions of $65 million and $134 million, respectively, to our pension and postretirement plans. We anticipate making aggregate contributions to our defined benefit and postretirement plans of approximately $219 million over the remainder of 2018. As discussed in Note 1, the Company agreed to grant the PBGC a lien on, and subsequently contribute to the Company's pension plans, the Craftsman Receivable. During the second quarter of 2017, we sold the Craftsman Receivable to a third-party purchaser, and deposited the proceeds into an escrow for the benefit of our pension plans. We subsequently contributed a portion of the proceeds received from the sale of the Craftsman Receivable to our pension plans, which contribution was credited against the Company's minimum pension funding obligations in 2017. Under our agreement with the PBGC, the remaining proceeds will also be contributed to our pension plans, and when so contributed, will be fully credited against the Company's minimum pension funding obligations in 2018 and 2019.

The Company also agreed to grant a lien to the PBGC on the 15-year income stream relating to new Stanley Black & Decker sales of Craftsman products, and agreed to contribute the payments from Stanley Black & Decker under such income stream to the Company's pension plans, with such payments to be credited against the Company's minimum pension funding obligations starting no later than five years from the closing date. The Company also agreed to grant the PBGC a lien on $100 million of real estate assets to secure the Company's minimum pension obligations through the end of 2019, which were released from the ring-fence arrangement in August 2018 in exchange for a contribution of $32 million into an escrow for the benefit of our pension plans.

In November 2017, the Company announced an amendment to the PPPFA that allowed the Company to pursue the monetization of 138 of our properties that were subject to a ring-fence arrangement created under the PPPFA. In March 2018, the Company closed on the Secured Loan and the Mezzanine Loan, which transactions released the properties from the ring-fence arrangement. The Company contributed approximately $282 million of the proceeds of such loans to our pension plans, and deposited $125 million into an escrow for the benefit of our pension plans. Under our agreement with the PBGC, the escrowed amount will also be contributed to our pension plans and, when so contributed, will be fully credited against the Company’s minimum pension funding obligations in 2018 and 2019 described above. Following such transactions, the Company has been relieved of contributions to our pension plans for approximately two years (other than the contributions from escrow described above and a $20 million

supplemental payment made during the second quarter of 2018). The ultimate amount of pension contributions could be affected by factors such as changes in applicable laws, as well as financial market and investment performance and demographic changes.

Pension Plan Settlements

Effective April 27, 2018, the Company amended its domestic pension plans, primarily related to lump sum benefit eligibility, and began notifying certain former employees of the Company of its offer to pay those employees' pension benefit in a lump sum. Former employees eligible for the voluntary lump sum payment option are generally those who are vested traditional formula participants of Plan 1 and Plan 2 who terminated employment prior to January 1, 2018, and who have not yet started receiving monthly payments of their pension benefits. The Company offered the one-time voluntary lump sum window in an effort to reduce its long-term pension obligations and ongoing annual pension expense. This voluntary offer was made to approximately 12,000 eligible terminated vested participants representing approximately $550 million of the Company's total qualified pension plan liabilities. Eligible participants had until July 1, 2018 to make their election. The Company made payments of approximately $315 million and $28 million to employees who made the election and funded the payments from existing assets of Plan 1 and Plan 2, respectively. The lump sum offer resulted in a non-cash charge of $108 million for losses previously accumulated in other comprehensive income (loss), which were recognized through the statement of operations immediately upon settlement during the 13 week period ending August 4, 2018.

In May 2017, the Company executed an irrevocable agreement to purchase a group annuity contract from Metropolitan Life Insurance Company ("MLIC"), under which MLIC will pay future pension benefit payments to approximately 51,000 retirees from Plan 2. The agreement calls for a transfer of approximately $515 million of Plan 2's benefit obligations to MLIC. This action had an immaterial impact on the funded status of our total pension obligations, but reduced the size of the Company's combined pension plan, reduced future cost volatility, and reduced future plan administrative expenses. Due to the annuity purchase, we were required to remeasure our pension obligations. In connection with the remeasurement, we updated the effective discount rate assumption to 3.85% as of May 31, 2017. The annuity purchase resulted in a non-cash charge of $200 million for losses previously accumulated in other comprehensive income (loss), which were recognized through the statement of operations upon settlement during the 13 week period ending July 29, 2017.

NOTE 6—INCOME TAXES

We had gross unrecognized tax benefits of $135 million at August 4, 2018, $153 million at July 29, 2017 and $130 million at February 3, 2018. Of the amount at August 4, 2018, $107 million would, if recognized, impact our effective tax rate, with the remaining amount being comprised of unrecognized tax benefits related to gross temporary differences or any other indirect benefits. During the 13- and 26- weeks ended August 4, 2018, gross unrecognized tax benefits increased by $3 million and $5 million, respectively, due to state activity. During the 13- and 26- weeks ended July 29, 2017, gross unrecognized tax benefits increased by $3 million and $11 million, respectively, due to state activity. We expect that our unrecognized tax benefits could decrease by as much as $9 million over the next 12 months for tax audit settlements and the expiration of the statute of limitations for certain jurisdictions.

We classify interest expense and penalties related to unrecognized tax benefits and interest income on tax overpayments as components of income tax expense. At August 4, 2018, July 29, 2017 and February 3, 2018, the total amount of interest and penalties included in our tax accounts in our Condensed Consolidated Balance Sheet was $57 million ($45 million net of federal benefit), $67 million ($44 million net of federal benefit) and $51 million ($40 million net of federal benefit), respectively. The total amount of net interest expense (net of federal benefit) recognized as part of income tax expense in our Condensed Consolidated Statements of Operations was $2 million for each of the 13 weeks ended August 4, 2018 and July 29, 2017, and $4 million for each of the 26 week periods ended August 4, 2018 and July 29, 2017.

We file income tax returns in both the United States and various foreign jurisdictions. The U.S. Internal Revenue Service ("IRS") has completed its examination of all federal tax returns of Holdings through the 2009 return, and all matters arising from such examinations have been resolved. In addition, Holdings and Sears are under examination

by various state, local and foreign income tax jurisdictions for the years 2003 through 2016, and Kmart is under examination by such jurisdictions for the years 2006 through 2016.

At the end of 2017, we had a federal and state net operating loss ("NOL") deferred tax asset of $1.7 billion, which will expire predominately between 2019 and 2037. We have credit carryforwards of $899 million, which will expire between 2018 and 2037.

In connection with the Craftsman Sale in the first quarter of 2017, the Company realized a tax benefit of $101 million on the deferred taxes related to the indefinite-life intangible for the trade name sold to Stanley Black & Decker. In addition, the Company incurred a taxable gain of approximately $963 million. There was no federal income tax payable resulting from the taxable gain due to the utilization of NOL tax attributes of approximately $361 million with a valuation allowance release of the same amount. However, there was state income tax of $4 million payable after the utilization of state tax attributes.

At February 3, 2018, we had a valuation allowance of $4.2 billion. The amount of the deferred tax asset considered realizable, however, could be adjusted in the future if estimates of future taxable income during the carryforward period are reduced or increased, or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as our projections for growth. We will continue to evaluate our valuation allowance for any change in circumstances that causes a change in judgment about the realizability of the deferred tax asset.

Income tax expense or benefit from continuing operations is generally determined without regard to other categories of earnings, such as discontinued operations and other comprehensive income ("OCI"). An exception is provided in the authoritative accounting guidance when there is income from categories other than continuing operations and a loss from continuing operations in the current year. In this case, the tax benefit allocated to continuing operations is the amount by which the loss from continuing operations reduces the tax expense recorded with respect to the other categories of earnings, even when a valuation allowance has been established against the deferred tax assets. In instances where a valuation allowance is established against current year losses, income from other sources, including gain from pension and other postretirement benefits recorded as a component of OCI, is considered when determining whether sufficient future taxable income exists to realize the deferred tax assets. As a result, for the second quarter ended August 4, 2018, the Company recorded a tax expense of $27 million in OCI related to the gain on pension and other postretirement benefits, and recorded a corresponding tax benefit of $27 million in continuing operations.

The application of the requirements for accounting for income taxes in interim periods, after consideration of our valuation allowance, causes a significant variation in the typical relationship between income tax expense and pretax accounting income. As such, for the 13 weeks ended August 4, 2018 and July 29, 2017, our effective income tax rates were a benefit of 3.6% and an expense of 4.2%, respectively, and for the 26 weeks ended August 4, 2018 and July 29, 2017, our effective tax rates were a benefit of 1.1% and 92.5%, respectively. Our tax rate continues to reflect the effect of not recognizing the benefit of current period losses in certain domestic jurisdictions where it is not more likely than not that such benefits would be realized. The 2018 rate reflects the impacts of the valuation allowance release through continuing operations creating a tax benefit with the offsetting tax expense reflected in OCI as discussed earlier, a tax benefit on the deferred taxes related to the partial impairment of the Kenmore trade name, and the Tax Cuts and Jobs Act, including the federal rate of 21%, the effect of taxes on foreign earnings and changes to previously deductible expenses. In addition, the 13- and 26- weeks ended August 4, 2018 were positively impacted by the reversal of deferred taxes related to indefinite-life assets associated with property sales and negatively impacted by foreign branch taxes and state income taxes. During the first quarter of 2017, the Company realized a significant tax benefit on the reversal of deferred taxes related to the Craftsman Sale.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cut and Jobs Act (the "Tax Act"). The Tax Act made broad and complex changes to the U.S. tax code that will affect our years ending February 3, 2018 and February 2, 2019, including, but not limited to, (1) reducing the U.S. federal corporate tax rate to 21%, (2) requiring a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries that is payable over eight years and (3) various other miscellaneous changes that are effective in 2017. With the lower U.S. federal corporate rate effective beginning January 1, 2018, our U.S. federal corporate tax rate for 2017 was a blended rate of 33.717% and for 2018 is the statutory rate of 21%.

In addition to the 21% reduced federal corporate tax rate, the Tax Act also established new laws that will affect 2018, including, but not limited to, (1) the creation of the base erosion anti-abuse tax ("BEAT"), a new minimum tax; (2) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (3) a new provision designed to tax global intangible low-taxed income ("GILTI"); (4) a new limitation on deductible interest expense; (5) limitations on the deductibility of certain executive compensation; (6) limitations on the use of foreign tax credits ("FTCs") to reduce the U.S. income tax liability; and (7) limitations on net operating losses ("NOLs") generated in tax years beginning after December 31, 2017, to 80% of taxable income with indefinite carryovers.

The SEC staff issued Staff Accounting Bulletin ("SAB") 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting in accordance with accounting standards applicable to income taxes. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under accounting standards applicable to income taxes is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply accounting standards applicable to income taxes on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

The income tax benefit for the period ended February 3, 2018 included a tax benefit of $470 million related to the impacts of the Tax Act. The impacts of the Tax Act primarily consist of a net benefit for the corporate rate reduction of $222 million, a net tax benefit for the valuation allowance release of $270 million, and a net expense for the transition tax of $11 million.

For various reasons discussed below, our accounting for the following elements of the Tax Act is incomplete as of the year ending February 3, 2018 and the second quarter of 2018. We will continue to refine our calculations as additional analysis is completed. However, we were able to make reasonable estimates of certain effects and, therefore, recorded provisional adjustments as follows:

Reduction of U.S. federal corporate tax rate: As a result of the reduced corporate rate, our deferred tax assets, liabilities, and valuation allowance decreased. Further, as we had a net deferred tax liability after valuation allowance, these decreases resulted in a deferred income tax benefit of $222 million for the year ended February 3, 2018. While we were able to make a reasonable estimate of the impact of the reduction in the corporate rate, it may be affected by other analysis related to the Tax Act, including, but not limited to, our calculation of deemed repatriation of deferred foreign income and state tax effect of adjustments made to federal temporary differences. We have not adjusted our provisional tax benefit of $222 million recorded at February 3, 2018 as of the second quarter of 2018.

Valuation Allowances: The Company assessed whether its valuation allowance analyses are affected by various aspects of the Tax Act (e.g., deemed repatriation of deferred foreign income, new categories of FTC's, and other miscellaneous provisions of the Tax Act), any corresponding determination of the need for a change in a valuation allowance is also provisional. We have not adjusted our provisional net tax benefit of $270 million at February 3, 2018 as of the second quarter of 2018.

Global Intangible Low Taxes Income: The Tax Act creates a new requirement that certain income (i.e., GILTI) earned by controlled foreign corporations ("CFCs") must be included in the gross income of the CFC's U.S. shareholder. GILTI is the excess of the shareholder's "net CFC tested income" over the net deemed tangible income return, which is currently defined as the excess of (1) 10% of the aggregate of the U.S. shareholder's pro rate share of the qualified business asset investment of each CFC with respect to which it is a U.S. shareholder over (2) the amount of certain interest expense taken into account in the determination of net CFC-tested income.

Because of the complexity of the new GILTI tax rules, we are continuing to evaluate this provision of the Tax Act and the application of accounting standards applicable to income taxes. In accordance with accounting standards applicable to income taxes, we are allowed to make an accounting policy choice of (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factoring such amounts into a company's measurement of its deferred taxes (the "deferred method"). We selected the period cost method in the year ending February 3, 2018. We have estimated that our GILTI tax for the year ending February 2, 2019 will be $3 million and have included it in our annual effective tax rate ("AETR")

calculation. While the estimated GILTI inclusion will increase our taxable income by $12.4 million, it results in no income tax payable due to the utilization of NOL attributes of $3 million with a valuation allowance release of the same amount. We will continue to refine our calculations throughout 2018.

Deemed Repatriation Transition Tax: The Deemed Repatriation Transition Tax ("Transition Tax") is a tax on previously untaxed accumulated and current earnings and profits ("E&P") of certain of our foreign subsidiaries. To determine the amount of the Transition Tax, we must determine, in addition to other factors, the amount of post-86 E&P of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. We were able to make a reasonable estimate of the Transition Tax and recorded a provisional Transition Tax obligation of $6 million and a provisional withholding tax obligation of $11 million at February 3, 2018. As a result of our valuation allowance on NOLs, only the $11 million withholding tax obligation resulted in a current tax expense. While we are continuing to gather additional information to more precisely compute the amount of the Transition Tax, we did not adjust our estimate of the provisional Transition Tax as of the second quarter of fiscal 2018.

Other Tax Act Provisions: The Company's AETR also reflects the impact of other Tax Act provisions, including, but not limited to, the new limitation on deductible interest expense, limitations on the deductibility of certain executive compensation, and the disallowance of certain miscellaneous provisions.

NOTE 7—SUMMARY OF SEGMENT DATA

These reportable segment classifications are based on our business formats, as described in Note 1. The Kmart format represents both an operating and reportable segment. The Sears Domestic reportable segment consists of the aggregation of several business formats. These formats are evaluated by our Chief Operating Decision Maker ("CODM") to make decisions about resource allocation and to assess performance.

Each of these segments derives its revenues from the sale of merchandise and related services to customers, primarily in the United States. The merchandise and service categories, which represent revenues from contracts with customers, are as follows. The other category includes revenues from contracts with customers, as described below, and also includes rental revenues.

(i) Hardlines—consists of home appliances, consumer electronics, lawn & garden, tools & hardware, automotive parts, household goods, toys, housewares and sporting goods;

(ii) Apparel and Soft Home—includes women's, men's, kids', footwear, jewelry, accessories and soft home;

(iii) Food and Drug—consists of grocery & household, pharmacy and drugstore;

(iv) Service—includes repair, installation and automotive service and extended contract revenue; and

(v) Other—includes revenues earned in connection with our agreements with SHO and Lands' End, as well as credit revenues and rental revenues.

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

	13 Weeks Ended August 4, 2018		
millions	Kmart	Sears Domestic	Sears Holdings
Merchandise sales			
Hardlines	$ 242	$ 1,196	$ 1,438
Apparel and Soft Home	307	400	707
Food and Drug	281	2	283
Total merchandise sales	830	1,598	2,428
Services and other			
Services	1	406	407
Other	9	338	347
Total services and other	10	744	754
Total revenues	840	2,342	3,182
Costs and expenses			
Cost of sales, buying and occupancy - merchandise sales	679	1,376	2,055
Cost of sales and occupancy - services and other	1	424	425
Total cost of sales, buying and occupancy	680	1,800	2,480
Selling and administrative	192	672	864
Depreciation and amortization	9	57	66
Impairment charges	—	77	77
Gain on sales of assets	(25)	(78)	(103)
Total costs and expenses	856	2,528	3,384
Operating loss	$ (16)	$ (186)	$ (202)
Total assets	$ 1,619	$ 5,318	$ 6,937
Capital expenditures	$ 8	$ 10	$ 18

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

	13 Weeks Ended July 29, 2017		
millions	Kmart	Sears Domestic	Sears Holdings
Merchandise sales			
Hardlines	$ 426	$ 1,521	$ 1,947
Apparel and Soft Home	511	462	973
Food and Drug	493	1	494
Total merchandise sales	1,430	1,984	3,414
Services and other			
Services	1	476	477
Other	11	376	387
Total services and other	12	852	864
Total revenues	1,442	2,836	4,278
Costs and expenses			
Cost of sales, buying and occupancy - merchandise sales	1,161	1,654	2,815
Cost of sales and occupancy - services and other	1	490	491
Total cost of sales, buying and occupancy	1,162	2,144	3,306
Selling and administrative	323	800	1,123
Depreciation and amortization	14	69	83
Impairment charges	3	2	5
Gain on sales of assets	(79)	(301)	(380)
Total costs and expenses	1,423	2,714	4,137
Operating income	$ 19	$ 122	$ 141
Total assets	$ 2,019	$ 6,348	$ 8,367
Capital expenditures	$ 3	$ 16	$ 19

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

	26 Weeks Ended August 4, 2018		
millions	**Kmart**	**Sears Domestic**	**Sears Holdings**
Merchandise sales			
Hardlines	$ 441	$ 2,257	$ 2,698
Apparel and Soft Home	607	761	1,368
Food and Drug	571	3	574
Total merchandise sales	1,619	3,021	4,640
Services and other			
Services	2	783	785
Other	16	632	648
Total services and other	18	1,415	1,433
Total revenues	1,637	4,436	6,073
Costs and expenses			
Cost of sales, buying and occupancy - merchandise sales	1,320	2,634	3,954
Cost of sales and occupancy - services and other	4	808	812
Total cost of sales, buying and occupancy	1,324	3,442	4,766
Selling and administrative	443	1,327	1,770
Depreciation and amortization	18	115	133
Impairment charges	6	85	91
Gain on sales of assets	(65)	(203)	(268)
Total costs and expenses	1,726	4,766	6,492
Operating loss	$ (89)	$ (330)	$ (419)
Total assets	$ 1,619	$ 5,318	$ 6,937
Capital expenditures	$ 16	$ 16	$ 32

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

millions	26 Weeks Ended July 29, 2017 Kmart	Sears Domestic	Sears Holdings
Merchandise sales			
Hardlines	$ 792	$ 2,949	$ 3,741
Apparel and Soft Home	1,024	931	1,955
Food and Drug	1,045	2	1,047
Total merchandise sales	2,861	3,882	6,743
Services and other			
Services	2	944	946
Other	26	762	788
Total services and other	28	1,706	1,734
Total revenues	2,889	5,588	8,477
Costs and expenses			
Cost of sales, buying and occupancy - merchandise sales	2,341	3,253	5,594
Cost of sales and occupancy - services and other	5	975	980
Total cost of sales, buying and occupancy	2,346	4,228	6,574
Selling and administrative	715	1,629	2,344
Depreciation and amortization	27	143	170
Impairment charges	8	12	20
Gain on sales of assets	(676)	(445)	(1,121)
Total costs and expenses	2,420	5,567	7,987
Operating income	$ 469	$ 21	$ 490
Total assets	$ 2,019	$ 6,348	$ 8,367
Capital expenditures	$ 9	$ 32	$ 41

NOTE 8—SUPPLEMENTAL FINANCIAL INFORMATION

Other long-term liabilities at August 4, 2018, July 29, 2017 and February 3, 2018 consisted of the following:

millions	August 4, 2018	July 29, 2017	February 3, 2018
Self-insurance reserves	351	533	491
Other	419	459	444
Total	$ 770	$ 992	$ 935

The Company accounted for the Insurance Transaction in accordance with accounting standards applicable to extinguishment of liabilities. The Company determined that it has been legally released from being the primary obligor under certain workers' compensation and auto per occurrence deductible losses. Accordingly, we accounted for the Insurance Transaction as an extinguishment, and de-recognized the related self-insurance reserves and recognized a loss of $27 million, for the difference between the cash paid and the carrying value of related self-insurance reserves, within selling and administrative in the Condensed Consolidated Statement of Operations for the 26 week period ended August 4, 2018.

The Company sells service contracts that provide for preventative maintenance and repair/replacement coverage on consumer products over periods of time ranging from 12 to 144 months. Revenues from the sale of service contracts, and the related direct acquisition costs, are deferred and amortized on a straight-line basis over the lives of the associated contracts, while the associated service costs are expensed as incurred. The Company satisfies its performance obligations for service contracts over time as we are obligated to perform the related services over the contract period, while payment from the customer is generally received at the inception of the service contract.

The table below shows activity related to unearned revenues for service contracts, which are recorded within current and long-term unearned revenues in the Condensed Consolidated Balance Sheets. During the 26 weeks ended August 4, 2018, the Company recognized revenues of $347 million that were included within unearned revenues at February 3, 2018. During the 26 weeks ended July 29, 2017, the Company recognized revenues of $401 million that were included within unearned revenues at January 28, 2017. The Company expects to recognize revenue of $560 million within the next 12 months and $480 million of revenue thereafter and has accordingly included these amounts within current and long-term unearned revenues, respectively.

millions	Unearned Revenues
Balance at July 29, 2017	$ 1,219
Sales of service contracts	325
Revenue recognized on existing service contracts	(430)
Balance at February 3, 2018	1,114
Sales of service contracts	310
Revenue recognized on existing service contracts	(384)
Balance at August 4, 2018	$ 1,040

Deferred acquisition costs included $41 million, $45 million and $41 million within prepaid expenses and other current assets and $133 million, $152 million and $141 million within other assets in the Condensed Consolidated Balance Sheets at August 4, 2018, July 29, 2017 and February 3, 2018, respectively. Amortization of deferred acquisition costs included within selling and administrative expense in the Condensed Consolidated Statements of Operations was $25 million and $27 million for the 13 week periods ended August 4, 2018 and July 29, 2017, respectively, and $51 million and $54 million for the 26 week periods ended August 4, 2018 and July 29, 2017, respectively.

During the second quarter of 2018, the Company identified an error in its footnote disclosures related to deferred acquisition costs. The amount of current and non-current deferred acquisition costs previously disclosed in the first quarter 2018 footnote were $145 million and $268 million as of February 3, 2018, respectively. The Company evaluated the materiality of the misstated footnote disclosure and concluded that it was immaterial to prior periods.

The Company has revised the disclosure of deferred acquisition costs at February 3, 2018 above, which had no impact on our condensed consolidated financial statements.

NOTE 9—LEGAL PROCEEDINGS

We are a defendant in several lawsuits containing class or collective action allegations in which the named plaintiffs are former associates who allege violations of various wage and hour laws under California law, including alleged misclassification, failure to pay for every hour worked, failure to pay for missed meal and rest periods, and other violations of the California Labor Code. The complaints generally seek unspecified monetary damages, injunctive relief, or both. Further, certain of these proceedings are in jurisdictions with reputations for aggressive application of laws and procedures against corporate defendants. We also are a defendant in putative class action or representative lawsuits in California relating to alleged failure to comply with California laws pertaining to certain operational, marketing, and pricing practices. The California laws alleged to have been violated in each of these lawsuits provide the potential for significant statutory penalties. At this time, the Company is not able to either predict the outcome of these lawsuits or reasonably estimate a potential range of loss with respect to the lawsuits.

We are subject to various other legal and governmental proceedings and investigations, including some involving the practices and procedures in our more highly regulated businesses. Some matters contain class action allegations, environmental and asbestos exposure allegations and other consumer-based, regulatory claims, each of which may seek compensatory, punitive or treble damage claims (potentially in large amounts), as well as other types of relief. At this time, the Company is not able to either predict the outcome of these lawsuits or reasonably estimate a potential range of loss with respect to these lawsuits.

In accordance with accounting standards regarding loss contingencies, we accrue an undiscounted liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated, and we disclose the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for our financial statements to not be misleading. We do not record liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated, or when the liability is believed to be only reasonably possible or remote.

Because litigation outcomes are inherently unpredictable, our evaluation of legal proceedings often involves a series of complex assessments by management about future events and can rely heavily on estimates and assumptions. If the assessments indicate that loss contingencies that could be material to any one of our financial statements are not probable, but are reasonably possible, or are probable, but cannot be estimated, then we disclose the nature of the loss contingencies, together with an estimate of the range of possible loss or a statement that such loss is not reasonably estimable. While the consequences of certain unresolved proceedings are not presently determinable, and an estimate of the probable and reasonably possible loss or range of loss in excess of amounts accrued for such proceedings cannot be reasonably made, an adverse outcome from such proceedings could have a material effect on our earnings in any given reporting period. However, in the opinion of our management, after consulting with legal counsel, and taking into account insurance and reserves, the ultimate liability related to current outstanding matters is not expected to have a material effect on our financial position or capital resources.

NOTE 10—RECENT ACCOUNTING PRONOUNCEMENTS

Compensation - Retirement Benefits

In August 2018, the FASB issued an accounting standards update which modifies disclosure requirements for defined benefit and postretirement plans. This update is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. The amendments in this update should be applied on a retrospective basis to all periods presented. We are currently evaluating the effect the update will have on our disclosures.

Fair Value Measurements

In August 2018, the FASB issued an accounting standards update which modifies disclosure requirements on fair value measurements. This update is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value

measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of this Update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. We are currently evaluating the effect the update will have on our disclosures.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued an accounting standards update which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. This update is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The amendments in this update should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. We are currently evaluating the effect the update will have on our consolidated financial statements.

Accounting for Certain Financial Instruments with Down Round Features

In July 2017, the FASB issued an accounting standards update which changes the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share to recognize the effect of the down round feature when it is triggered. The update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption is permitted. The Company adopted the update in the first quarter of 2018. The adoption of the new standard did not have an impact on our condensed consolidated financial statements.

Compensation - Retirement Benefits

In March 2017, the FASB issued an accounting standards update which requires an employer to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. It also requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The amendments in the update must be applied retrospectively. The Company adopted the update in the first quarter of 2018. The adoption of the new standard reduced selling and administrative and increased other loss in the Condensed Consolidated Statements of Operations by $246 million and $292 million for the 13- and 26- weeks ended July 29, 2017, respectively.

Business Combinations

In January 2017, the FASB issued an accounting standards update which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of businesses. The amendments in this update provide a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If the screen is not met, the amendments in this update require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. This update is

effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The amendments in the update must be applied prospectively. The Company adopted the update in the first quarter of 2018. The adoption of the new standard did not have an impact on our condensed consolidated financial statements.

Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued an accounting standards update to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Current accounting standards prohibit the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. In addition, interpretations of this guidance have developed in practice for transfers of certain intangible and tangible assets. This prohibition on recognition is an exception to the principle of comprehensive recognition of current and deferred income taxes in accounting standards. To more faithfully represent the economics of intra-entity asset transfers, the amendments in this update require that entities recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments in this update do not change accounting standards for the pre-tax effects of an intra-entity asset transfer under accounting standards applicable to consolidation, or for an intra-entity transfer of inventory. The update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted as of the beginning of an annual reporting period. The amendments in this update should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company adopted the update in the first quarter of 2018. The adoption of the new standard did not have an impact on our condensed consolidated financial statements.

Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued accounting standards updates which address diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows, including: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. These updates were effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The amendments in the update must be applied using a retrospective transition method to each period presented. The Company adopted the update in the first quarter of 2018. The adoption of the new standard did not have an impact on our condensed consolidated financial statements.

Leases

In February 2016, the FASB issued an accounting standards update which replaces the current lease accounting standard. The update will require, among other items, lessees to recognize a right-of-use asset and a lease liability for most leases. Extensive quantitative and qualitative disclosures, including significant judgments made by management, will be required to provide greater insight into the extent of revenue and expense recognized and expected to be recognized from existing contracts. The new standard provides for certain practical expedients. The update is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. In July 2018, the FASB issued an update which provides an additional transition method allowing entities to only apply the new lease standard in the year of adoption. The update also provides a practical expedient for lessors to combine non-lease components with related lease components if certain conditions are met. We have selected our leasing software solution and are in the process of identifying changes to our business processes, systems and controls to support adoption of the new standard in fiscal 2019. We are currently evaluating the effect the update will have on our consolidated financial statements, and expect the update will have a material impact on our consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the FASB issued an accounting standards update which replaces the current revenue recognition standards. Subsequently, the FASB has also issued accounting standards updates which clarify the guidance. As discussed in Note 1, the Company adopted the update in the first quarter of 2018 using the full retrospective adoption method. See Note 1 for further information.

Other Income - Gains and Losses from the De-recognition of Non-financial assets

In May 2014, the FASB also issued Subtopic 610-20 as part of the accounting standards update *Revenue from Contracts with Customers*. Subsequently, the FASB issued accounting standards updates which clarify the guidance. The update provides guidance on the recognition and measurement of transfers of non-financial assets to parties that are not customers and amends or supersedes existing guidance within accounting standards related to intangible assets and real estate sales on determining the gain or loss recognized upon de-recognition of a non-financial asset. The effective date of the update is aligned with the requirements in the new revenue standard. The amendments in this update may be applied using a full or modified retrospective adoption method. The Company adopted the update in the first quarter of 2018 using the modified retrospective adoption method to contracts not complete at the adoption date. The adoption of the new standard did not have an impact on our condensed consolidated financial statements.

NOTE 11—RELATED PARTY DISCLOSURE

Mr. Lampert is Chairman of our Board of Directors and is the Chairman and Chief Executive Officer of ESL. Additionally, on February 1, 2013, Mr. Lampert became our Chief Executive Officer, in addition to his role as Chairman of the Board. ESL owned approximately 49% of our outstanding common stock at August 4, 2018 (excluding shares of common stock that ESL may acquire within 60 days upon the exercise of warrants to purchase shares of our common stock and through debt conversion features).

Bruce R. Berkowitz was a member of our Board of Directors from February 2016 through October 2017. Mr. Berkowitz serves as the Chief Investment Officer of Fairholme Capital Management, LLC, an investment adviser registered with the SEC, and is the President and a Director of Fairholme Funds, Inc., a SEC-registered investment company providing investment management services to three mutual funds (together with Fairholme Capital Management, LLC and other affiliates, "Fairholme"). Fairholme owned approximately 16% of our outstanding common stock at August 4, 2018 (excluding shares of common stock that Fairholme may acquire within 60 days upon the exercise of warrants to purchase shares of our common stock).

Thomas J. Tisch has been an independent member of our Board of Directors since 2005. Mr. Tisch owned approximately 3% of our outstanding common stock at August 4, 2018 (excluding shares of common stock that Mr. Tisch may acquire within 60 days upon the exercise of warrants to purchase shares of our common stock and through debt conversion features).

Unsecured Commercial Paper

During the 26 week periods ended August 4, 2018 and July 29, 2017, ESL and its affiliates held unsecured commercial paper issued by SRAC, an indirect wholly-owned subsidiary of Holdings. For the commercial paper outstanding to ESL, the weighted average of each of maturity, annual interest rate and principal amount outstanding was 7.0 days, 11% and $8 million and 8.1 days, 8% and $58 million, respectively, during the 26 week periods ended August 4, 2018 and July 29, 2017. The largest aggregate amount of principal outstanding to ESL at any time since the beginning of 2018 was $50 million, and $0.4 million of interest was paid by SRAC to ESL during the 26 week period ended August 4, 2018.

The commercial paper purchases were made in the ordinary course of business on substantially the same terms, including interest rates, as terms prevailing for comparable transactions with other persons, and did not present features unfavorable to the Company.

LC Facility

On December 28, 2016, the Company, through the Borrowers, entered into the LC Facility, which was subsequently amended in August 2017. At each of August 4, 2018, July 29, 2017 and February 3, 2018, we had $271 million of letters of credit outstanding under the LC Facility. The letters of credit outstanding under the LC Facility were initially committed by entities affiliated with ESL, and the Lenders maintain cash collateral on deposit with the Issuing Bank of $108 million. $165 million of the amount originally committed under the LC Facility has been syndicated to unaffiliated third party lenders as of August 4, 2018. See Note 2 for additional information regarding the LC Facility, as amended.

FILO Loan

On March 21, 2018, the Company, through the Borrowers, obtained the FILO Loan. The initial lenders of the FILO Loan include JPP, LLC and JPP II, LLC, entities affiliated with ESL, and Benefit Street 2018 LLC, an entity affiliated with Mr. Tisch. At August 4, 2018, JPP LLC and JPP II, LLC and Benefit Street 2018 LLC, respectively, held $70 million and $25 million of principal amount of the FILO Loan.

Mezzanine Loan and Additional Mezzanine Loans

On March 14, 2018, the Company, through the Mezzanine Loan Borrower, entered into the Mezzanine Loan Agreement with the Lenders, entities affiliated with ESL. The Mezzanine Loan Agreement contains an uncommitted accordion feature pursuant to which the Mezzanine Loan Borrower may incur Additional Mezzanine Loans, subject to certain conditions. At August 4, 2018, JPP LLC and JPP II, LLC, entities affiliated with ESL, held $463 million of aggregate principal amount of Mezzanine Loan and Additional Mezzanine Loans.

Term Loan Facility

On January 4, 2018, the Company, through the Borrowers, obtained a $300 million loan facility from the Lenders, entities affiliated with ESL. At August 4, 2018 and February 3, 2018, JPP LLC and JPP II, LLC, entities affiliated with ESL, held $150 million and $151 million, respectively, of principal amount of the Term Loan Facility. Proceeds received from real estate transactions were used to reduce outstanding borrowings under the Term Loan Facility, of which $11 million were repaid to entities affiliated with ESL. See Note 2 for additional information regarding the Term Loan Facility.

Consolidated Secured Loan Facility

On June 4, 2018, the Company, through the Incremental Loan Borrowers, entered into the Consolidated Loan Agreement with the 2016 Secured Loan Lenders, which amends and restates the Second Amended and Restated Loan Agreement, dated as of October 18, 2017, and terminates the 2016 Secured Loan Facility. The Consolidated Secured Loan Facility matures on July 20, 2020, and a portion of the Consolidated Secured Loan Facility, as evidenced by Note B, as of closing was held by JPP, LLC and JPP II, LLC, entities affiliated with ESL. At August 4, 2018, JPP LLC and JPP II, LLC, entities affiliated with ESL, held $686 million of principal amount of the Consolidated Secured Loan Facility. See Note 2 for additional information regarding the Consolidated Secured Loan Facility.

2017 Secured Loan Facility

On January 3, 2017, the Company, through the 2017 Secured Loan Borrowers, obtained a $500 million real estate loan facility from the Lenders, entities affiliated with ESL. On March 8, 2018, the Company borrowed an additional $100 million from the Lenders, which had an original maturity of July 20, 2020 and had the same terms as the 2017 Secured Loan Facility, as amended. At July 29, 2017 and February 3, 2018, JPP LLC and JPP II, LLC, entities affiliated with ESL, held $461 million and $384 million of principal amount of the 2017 Secured Loan Facility, respectively. Proceeds received from real estate transactions were used to reduce outstanding borrowings under the 2017 Secured Loan Facility during the 26 weeks ended August 4, 2018, of which $17 million was repaid to entities affiliated with ESL. Approximately $39 million of proceeds received from real estate transactions were used to reduce outstanding borrowings under the 2017 Secured Loan Facility during the 26 weeks ended July 29, 2017, all

of which were repaid to entities affiliated with ESL. During October 2017, the Company, through the Incremental Loan Borrowers, obtained Incremental Loans totaling $200 million from the Lenders. At February 3, 2018, JPP LLC and JPP II, LLC, entities affiliated with ESL, held $145 million of principal amount of the Incremental Loans. Proceeds received from real estate transactions were used to reduce outstanding borrowings under the Incremental Loans during the 26 weeks ended August 4, 2018, of which $6 million was repaid to entities affiliated with ESL. On June 4, 2018, the 2017 Secured Loan Facility and Incremental Loans were amended and restated by the Consolidated Loan Agreement described above. See Note 2 for additional information regarding the 2017 Secured Loan Facility, Incremental Loans and Consolidated Secured Loan Facility.

2016 Secured Loan Facility

In April 2016, the Company, through the 2016 Secured Loan Borrowers, obtained a $500 million real estate loan facility from the 2016 Secured Loan Lenders, some of which are entities affiliated with ESL. At July 29, 2017 and February 3, 2018, entities affiliated with ESL held $131 million and $126 million, respectively, of principal amount of the 2016 Secured Loan Facility. Proceeds received from real estate transactions were used to reduce outstanding borrowings under the 2016 Secured Loan Facility during the 26 weeks ended August 4, 2018, of which $33 million was repaid to entities affiliated with ESL. Proceeds received from real estate transactions were used to reduce outstanding borrowings under the 2016 Secured Loan Facility during the 26 weeks ended July 29, 2017, of which $84 million were repaid to entities affiliated with ESL. On June 4, 2018, the 2016 Secured Loan Facility was terminated by the Consolidated Loan Agreement described above. See Note 2 for additional information regarding the 2016 Secured Loan Facility, as amended, and Consolidated Secured Loan Facility.

2016 Term Loan

In April 2016, the Company, through the ABL Borrowers, obtained a $750 million senior secured term loan under the Amended Domestic Credit Agreement with a syndicate of lenders, including $146 million (net of original issue discount) from JPP, LLC and JPP II, LLC, entities affiliated with ESL, and $100 million from the Company's domestic pension plans. At August 4, 2018, the Company's domestic pension plans held $76 million of principal amount of the 2016 Term Loan. At July 29, 2017 and February 3, 2018, JPP LLC and JPP II, LLC, and the Company's domestic pension plans, respectively, held $114 million and $76 million, respectively, and $38 million and $77 million, respectively, of principal amount of the 2016 Term Loan. As disclosed in Note 2, a portion of the proceeds received from the Craftsman Sale were used to reduce outstanding borrowings under the 2016 Term Loan during the 26 weeks ended July 29, 2017, of which $36 million and $24 million was repaid to JPP LLC and JPP II, LLC, and the Company's domestic pension plans, respectively. See Note 2 for additional information regarding the 2016 Term Loan.

Second Lien Credit Agreement

In September 2016, the Company, through the ABL Borrowers, obtained a $300 million Second Lien Term Loan from the Lenders, entities affiliated with ESL. At each of August 4, 2018, July 29, 2017 and February 3, 2018, JPP LLC and JPP II, LLC held $300 million of principal amount of the Second Lien Term Loan.

Additionally, as further discussed in Note 2, in July 2017, the Company amended its Second Lien Credit Agreement to create an additional $500 million Line of Credit Facility. The Company received $610 million in net proceeds from Line of Credit Loans during 2017, including $480 million, $25 million and $20 million from ESL and its affiliates, Mr. Berkowitz and his affiliates, and Mr. Tisch and his affiliates, respectively, which also represents the principal amount of Line of Credit Loans held by Mr. Berkowitz and his affiliates at July 29, 2017, by Mr. Tisch and his affiliates at August 4, 2018, July 29, 2017 and February 3, 2018 and by ESL and its affiliates at February 3, 2018. ESL and its affiliates held $200 million principal amount of Line of Credit Loans at July 29, 2017. During the 13 weeks ended May 5, 2018, the Company received an additional $70 million proceeds from Line of Credit Loans from ESL and its affiliates, bringing the principal amount of Line of Credit Loans held by ESL and its affiliates to $505 million at August 4, 2018. The Company made repayments of $25 million during 2017 to Mr. Berkowitz and his affiliates. See Note 2 for additional information regarding the Second Lien Credit Agreement, as amended.

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

Old Senior Secured Notes and New Senior Secured Notes

At July 29, 2017 and February 3, 2018, Mr. Lampert and ESL held an aggregate of approximately $11 million and $20 million of principal amount of the Company's Old Senior Secured Notes. At August 4, 2018, Mr. Lampert and ESL held an aggregate of approximately $21 million of principal amount of the Company's New Senior Secured Notes.

At July 29, 2017 Fairholme held an aggregate of approximately $46 million of principal amount of the Company's Old Senior Secured Notes.

Subsidiary Notes

At July 29, 2017, Mr. Lampert and ESL held an aggregate of $3 million of principal amount of unsecured notes issued by SRAC (the "Subsidiary Notes").

At August 4, 2018, July 29, 2017 and February 3, 2018, respectively, Fairholme held an aggregate of $8 million, $14 million and $9 million of principal amount of Subsidiary Notes.

Old Senior Unsecured Notes and Warrants and New Senior Unsecured Notes and Warrants

At both July 29, 2017 and February 3, 2018, Mr. Lampert and ESL held an aggregate of approximately $188 million of principal amount of the Company's Old Senior Unsecured Notes, and 10,033,472 warrants to purchase shares of Holdings' common stock.

At August 4, 2018, July 29, 2017 and February 3, 2018, respectively, Fairholme held an aggregate of approximately $330 million, $362 million and $336 million of principal amount of the Company's Old Senior Unsecured Notes, and 5,560,517, 6,648,050 and 5,768,185 warrants to purchase shares of Holdings' common stock.

At both July 29, 2017 and February 3, 2018, Mr. Tisch and his affiliates held an aggregate of approximately $10 million of principal amount of the Company's Old Senior Unsecured Notes. At July 29, 2017 and February 3, 2018, respectively, Mr. Tisch and his affiliates held 697,204 and 465,599 warrants to purchase shares of Holdings' common stock.

At August 4, 2018, Mr. Lampert and ESL held an aggregate of approximately $195 million of principal amount of the Company's New Senior Unsecured Notes and 10,033,472 warrants to purchase shares of Holdings' common stock. At August 4, 2018, Mr. Tisch and his affiliates held an aggregate of approximately $11 million of principal amount of the Company's New Senior Unsecured Notes and 465,599 warrants to purchase shares of Holdings' common stock.

Sears Canada

ESL owns approximately 45% of the outstanding common shares of Sears Canada (based on publicly available information as of July 27, 2017).

Lands' End

ESL owns approximately 67% of the outstanding common stock of Lands' End (based on publicly available information as of January 24, 2018). Holdings and certain of its subsidiaries entered into a transition services agreement in connection with the spin-off pursuant to which Lands' End and Holdings agreed to provide, on an interim, transitional basis, various services, including but not limited to, tax services, logistics services, auditing and compliance services, inventory management services, information technology services and continued participation in certain contracts shared with Holdings and its subsidiaries, as well as agreements related to Lands' End Shops at Sears and participation in the Shop Your Way program. The majority of the services under the transition services agreement with Lands' End have expired or been terminated. In July 2016, the Company and Lands' End executed an agreement pursuant to which the Company will provide foreign buying office support and sourcing services to Lands' End. The agreement expires on June 30, 2020.

Amounts due to or from Lands' End are non-interest bearing, and generally settled on a net basis. Holdings invoices Lands' End on at least a monthly basis. At both July 29, 2017 and February 3, 2018, Holdings reported a net amount receivable from Lands' End of $1 million within accounts receivable in the Condensed Consolidated Balance Sheet.

Amounts related to revenue from retail services and rent for Lands' End Shops at Sears, participation in the Shop Your Way program and corporate shared services were $10 million and $15 million, respectively, for the 13 week periods ended August 4, 2018 and July 29, 2017, and $21 million and $30 million, respectively, for the 26 week periods ended August 4, 2018 and July 29, 2017. The amounts Lands' End earned related to call center services and commissions were $1 million for the 13 week period ended August 4, 2018 and $1 million and $2 million, respectively, for the 26 week periods ended August 4, 2018 and July 29, 2017.

SHO

ESL owns approximately 58% of the outstanding common stock of SHO (based on publicly available information as of November 8, 2017). Holdings and certain of its subsidiaries engage in transactions with SHO pursuant to various agreements with SHO which, among other things, (1) govern the principal transactions relating to the rights offering and certain aspects of our relationship with SHO following the separation, (2) establish terms under which Holdings and certain of its subsidiaries will provide SHO with services, and (3) establish terms pursuant to which Holdings and certain of its subsidiaries will obtain merchandise for SHO.

These agreements were originally made in the context of a parent-subsidiary relationship and were negotiated in the overall context of the separation. In May 2016, the Company and SHO agreed to changes to a number of their related agreements, including extending the merchandise and services agreement until February 1, 2020.

A summary of the nature of related party transactions involving SHO is as follows:

- SHO obtains a significant amount of its merchandise from the Company. We have also entered into certain agreements with SHO to provide logistics, handling, warehouse and transportation services. SHO also pays a royalty related to the sale of Kenmore, Craftsman and DieHard products and fees for participation in the Shop Your Way program.
- SHO receives commissions from the Company for the sale of merchandise made through www.sears.com, extended service agreements, delivery and handling services and credit revenues.
- The Company provides SHO with shared corporate services. These services include accounting and finance and information technology.

Amounts due to or from SHO are non-interest bearing, settled on a net basis, and have payment terms of 10 days after the invoice date. The Company invoices SHO on a weekly basis. At August 4, 2018, July 29, 2017 and February 3, 2018, Holdings reported a net amount receivable from SHO of $22 million, $25 million and $28 million, respectively, within accounts receivable in the Condensed Consolidated Balance Sheets. Amounts related to the sale of inventory and related services, royalties, and corporate shared services were $219 million and $286 million, respectively, for the 13 week periods ended August 4, 2018 and July 29, 2017, and $424 million and $567 million, respectively, for the 26 week periods ended August 4, 2018 and July 29, 2017. The net amounts SHO earned related to commissions were $16 million and $19 million, respectively, for the 13 week periods ended August 4, 2018 and July 29, 2017, and $31 million and $36 million, respectively, for the 26 week periods ended August 4, 2018 and July 29, 2017. Additionally, the Company has guaranteed lease obligations for certain SHO store leases that were assigned as a result of the separation. See Note 4 of our Annual Report on Form 10-K for the fiscal year ended February 3, 2018 for further information related to these guarantees.

Also in connection with the separation, the Company entered into an agreement with SHO and the agent under SHO's secured credit facility, whereby the Company committed to continue to provide services to SHO in connection with a realization on the lender's collateral after default under the secured credit facility, notwithstanding SHO's default under the underlying agreement with us, and to provide certain notices and services to the agent, for so long as any obligations remain outstanding under the secured credit facility.

Seritage

ESL owns approximately 6.2% of the total voting power of Seritage, and approximately 43.5% of the limited partnership units of Seritage Growth Properties, L.P. (the "Operating Partnership"), the entity that now owns the properties sold by the Company in the Seritage transaction and through which Seritage conducts its operations (based on publicly available information as of May 7, 2018). Mr. Lampert is also currently the Chairman of the Board of Trustees of Seritage. Fairholme owns approximately 4.9% of the outstanding Class A common shares of Seritage and 100% of the outstanding Class C non-voting common shares of Seritage (based on publicly available information as of March 16, 2018).

In connection with the Seritage transaction as described in Note 3, Holdings entered into the Master Leases with Seritage. The initial amount of aggregate annual base rent under the master lease was $134 million for the REIT properties, with increases of 2% per year beginning in the second lease year. At both August 4, 2018 and February 3, 2018, Holdings reported prepaid rent of $6 million within prepaid expenses and other current assets in the Condensed Consolidated Balance Sheets. Holdings recorded rent expense of $13 million and $19 million, respectively, in cost of sales, buying and occupancy for the 13 week periods ended August 4, 2018 and July 29, 2017. Rent expense consists of straight-line rent expense of $20 million and $32 million, respectively, offset by amortization of a deferred gain recognized pursuant to the sale and leaseback of properties from Seritage of $7 million and $13 million, respectively, for the 13 week periods ended August 4, 2018 and July 29, 2017.

Holdings recorded rent expense of $27 million and $38 million, respectively, in cost of sales, buying and occupancy for the 26 week periods ended August 4, 2018 and July 29, 2017. Rent expense consists of straight-line rent expense of $43 million and $64 million, respectively, offset by amortization of a deferred gain recognized pursuant to the sale and leaseback of properties from Seritage of $16 million and $26 million, respectively, for the 26 week periods ended August 4, 2018 and July 29, 2017.

In addition to base rent under the Master Leases, Holdings pays monthly installment expenses for property taxes and insurance at all REIT properties where Holdings is a tenant and installment expenses for common area maintenance, utilities and other operating expenses at REIT properties that are multi-tenant locations where Holdings and other third parties are tenants. The initial amount of aggregate installment expenses under the Master Leases was $70 million, based on estimated installment expenses, and currently is $37 million as a result of recapture activity and reconciling actual installment expenses. Holdings paid $9 million and $12 million, respectively, for the 13 week periods ended August 4, 2018 and July 29, 2017, and $18 million and $24 million, respectively, for the 26 week periods ended August 4, 2018 and July 29, 2017, recorded in cost of sales, buying and occupancy. At August 4, 2018, July 29, 2017 and February 3, 2018, respectively, Holdings reported an amount receivable from Seritage of $1 million, $4 million and $1 million within accounts receivable in the Condensed Consolidated Balance Sheets.

NOTE 12—GUARANTOR/NON-GUARANTOR SUBSIDIARY FINANCIAL INFORMATION

At August 4, 2018, the principal amount outstanding of the Old Senior Secured Notes and New Senior Secured Notes was $264 million, including paid-in-kind interest. The Old Senior Secured Notes were issued in 2010 by Sears Holdings Corporation ("Parent"). The Old Senior Secured Notes and New Senior Secured Notes are guaranteed by certain of our 100% owned domestic subsidiaries that own the collateral for the Old Senior Secured Notes and New Senior Secured Notes, as well as by Sears Holdings Management Corporation and SRAC (the "guarantor subsidiaries"). The following condensed consolidated financial information presents the Condensed Consolidating Balance Sheets at August 4, 2018, July 29, 2017 and February 3, 2018, the Condensed Consolidating Statements of Operations and the Condensed Consolidating Statements of Comprehensive Income (Loss) for the 13- and 26- week periods ended August 4, 2018 and July 29, 2017, and the Condensed Consolidating Statements of Cash Flows for the 26 week periods ended August 4, 2018 and July 29, 2017 of (i) Parent; (ii) the guarantor subsidiaries; (iii) the non-guarantor subsidiaries; (iv) eliminations and (v) the Company on a consolidated basis.

The principal elimination entries relate to investments in subsidiaries and intercompany balances and transactions including transactions with our wholly-owned non-guarantor insurance subsidiary. The Company has accounted for investments in subsidiaries under the equity method. The guarantor subsidiaries are 100% owned directly or indirectly by the Parent and all guarantees are joint, several and unconditional. Additionally, the notes are secured by a security interest in certain assets consisting primarily of domestic inventory and credit card receivables of the guarantor subsidiaries, and consequently may not be available to satisfy the claims of the Company's general creditors. Certain investments primarily held by non-guarantor subsidiaries are recorded by the issuers at historical cost and are recorded at fair value by the holder.

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

Condensed Consolidating Balance Sheet
August 4, 2018

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets					
Cash and cash equivalents	$ —	$ 159	$ 34	$ —	$ 193
Restricted cash	248	—	—	—	248
Intercompany receivables	—	—	29,162	(29,162)	—
Accounts receivable	2	301	24	—	327
Merchandise inventories	—	2,714	—	—	2,714
Prepaid expenses and other current assets	234	866	690	(1,404)	386
Total current assets	484	4,040	29,910	(30,566)	3,868
Total property and equipment, net	—	847	597	—	1,444
Goodwill and intangible assets	—	337	1,120	(98)	1,359
Other assets	185	1,320	962	(2,201)	266
Investment in subsidiaries	8,356	28,136	—	(36,492)	—
TOTAL ASSETS	$ 9,025	$ 34,680	$ 32,589	$ (69,357)	$ 6,937
Current liabilities					
Short-term borrowings	$ —	$ 1,440	$ 24	$ (210)	$ 1,254
Current portion of long-term debt and capitalized lease obligations	89	477	—	(370)	196
Merchandise payables	—	487	—	—	487
Intercompany payables	11,094	18,068	—	(29,162)	—
Other current liabilities	15	1,871	1,313	(859)	2,340
Total current liabilities	11,198	22,343	1,337	(30,601)	4,277
Long-term debt and capitalized lease obligations	2,608	2,644	499	(2,247)	3,504
Pension and postretirement benefits	—	1,162	2	—	1,164
Deferred gain on sale-leaseback	—	290	15	—	305
Sale-leaseback financing obligation	—	128	219	—	347
Long-term deferred tax liabilities	—	—	350	(231)	119
Unearned revenues	—	603	415	(165)	853
Other long-term liabilities	—	703	67	—	770
Total Liabilities	13,806	27,873	2,904	(33,244)	11,339
EQUITY (DEFICIT)					
Shareholder's equity (deficit)	(4,781)	6,807	29,685	(36,113)	(4,402)
Total Equity (Deficit)	(4,781)	6,807	29,685	(36,113)	(4,402)
TOTAL LIABILITIES AND EQUITY (DEFICIT)	$ 9,025	$ 34,680	$ 32,589	$ (69,357)	$ 6,937

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

Condensed Consolidating Balance Sheet
July 29, 2017

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets					
Cash and cash equivalents	$ —	$ 180	$ 32	$ —	$ 212
Restricted cash	230	—	—	—	230
Intercompany receivables	—	—	27,871	(27,871)	—
Accounts receivable	—	350	20	—	370
Merchandise inventories	—	3,433	—	—	3,433
Prepaid expenses and other current assets	31	677	432	(806)	334
Total current assets	261	4,640	28,355	(28,677)	4,579
Total property and equipment, net	—	1,262	707	—	1,969
Goodwill and intangible assets	—	355	1,261	(98)	1,518
Other assets	405	1,304	1,532	(2,940)	301
Investment in subsidiaries	9,302	27,717	—	(37,019)	—
TOTAL ASSETS	$ 9,968	$ 35,278	$ 31,855	$ (68,734)	$ 8,367
Current liabilities					
Short-term borrowings	$ —	$ 689	$ —	$ (143)	$ 546
Current portion of long-term debt and capitalized lease obligations	—	1,052	—	—	1,052
Merchandise payables	—	672	(2)	—	670
Intercompany payables	11,416	16,455	—	(27,871)	—
Other current liabilities	37	2,147	1,133	(611)	2,706
Total current liabilities	11,453	21,015	1,131	(28,625)	4,974
Long-term debt and capitalized lease obligations	2,130	3,036	—	(2,761)	2,405
Pension and postretirement benefits	—	1,727	4	—	1,731
Deferred gain on sale-leaseback	—	455	—	—	455
Sale-leaseback financing obligation	—	141	89	—	230
Long-term deferred tax liabilities	48	—	738	(143)	643
Unearned revenues	—	305	481	(193)	593
Other long-term liabilities	—	913	79	—	992
Total Liabilities	13,631	27,592	2,522	(31,722)	12,023
EQUITY (DEFICIT)					
Shareholder's equity (deficit)	(3,663)	7,686	29,333	(37,012)	(3,656)
Noncontrolling interest	—	—	—	—	—
Total Equity (Deficit)	(3,663)	7,686	29,333	(37,012)	(3,656)
TOTAL LIABILITIES AND EQUITY (DEFICIT)	$ 9,968	$ 35,278	$ 31,855	$ (68,734)	$ 8,367

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

Condensed Consolidating Balance Sheet
February 3, 2018

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Current assets					
Cash and cash equivalents	$ —	$ 152	$ 30	$ —	$ 182
Restricted cash	154	—	—	—	154
Intercompany receivables	—	—	27,993	(27,993)	—
Accounts receivable	—	322	21	—	343
Merchandise inventories	—	2,798	—	—	2,798
Prepaid expenses and other current assets	309	910	478	(1,351)	346
Total current assets	463	4,182	28,522	(29,344)	3,823
Total property and equipment, net	—	1,043	686	—	1,729
Goodwill and intangible assets	—	346	1,189	(98)	1,437
Other assets	179	1,331	1,159	(2,385)	284
Investment in subsidiaries	8,787	27,774	—	(36,561)	—
TOTAL ASSETS	$ 9,429	$ 34,676	$ 31,556	$ (68,388)	$ 7,273
Current liabilities					
Short-term borrowings	$ 144	$ 937	$ —	$ (166)	$ 915
Current portion of long-term debt and capitalized lease obligations	303	897	—	(232)	968
Merchandise payables	—	576	—	—	576
Intercompany payables	11,099	16,894	—	(27,993)	—
Other current liabilities	16	1,970	1,426	(949)	2,463
Total current liabilities	11,562	21,274	1,426	(29,340)	4,922
Long-term debt and capitalized lease obligations	1,991	2,734	—	(2,476)	2,249
Pension and postretirement benefits	—	1,616	3	—	1,619
Deferred gain on sale-leaseback	—	360	2	—	362
Sale-leaseback financing obligation	—	158	89	—	247
Long-term deferred tax liabilities	—	—	349	(223)	126
Unearned revenues	—	271	446	(178)	539
Other long-term liabilities	—	867	68	—	935
Total Liabilities	13,553	27,280	2,383	(32,217)	10,999
EQUITY (DEFICIT)					
Shareholder's equity (deficit)	(4,124)	7,396	29,173	(36,171)	(3,726)
Noncontrolling interest	—	—	—	—	—
Total Equity (Deficit)	(4,124)	7,396	29,173	(36,171)	(3,726)
TOTAL LIABILITIES AND EQUITY (DEFICIT)	$ 9,429	$ 34,676	$ 31,556	$ (68,388)	$ 7,273

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

Condensed Consolidating Statement of Operations
For the 13 Weeks Ended August 4, 2018

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Merchandise sales	$ —	$ 2,416	$ —	$ 12	$ 2,428
Services and other	1	766	528	(541)	754
Total revenues	1	3,182	528	(529)	3,182
Cost of sales, buying and occupancy - merchandise sales	1	2,028	—	26	2,055
Cost of sales and occupancy - services and other	—	521	215	(311)	425
Total cost of sales, buying and occupancy	1	2,549	215	(285)	2,480
Selling and administrative	3	918	187	(244)	864
Depreciation and amortization	—	53	13	—	66
Impairment charges	—	—	77	—	77
Gain on sales of assets	—	(80)	(23)	—	(103)
Total costs and expenses	4	3,440	469	(529)	3,384
Operating income (loss)	(3)	(258)	59	—	(202)
Interest expense	(205)	(278)	(75)	370	(188)
Interest and investment income	56	117	218	(389)	2
Other loss	—	(139)	—	—	(139)
Income (loss) before income taxes	(152)	(558)	202	(19)	(527)
Income tax (expense) benefit	—	27	(8)	—	19
Equity (deficit) in earnings in subsidiaries	(337)	98	—	239	—
NET INCOME (LOSS) ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS	$ (489)	$ (433)	$ 194	$ 220	$ (508)

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

Condensed Consolidating Statement of Operations
For the 13 Weeks Ended July 29, 2017

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Merchandise sales	$ —	$ 3,406	$ —	$ 8	$ 3,414
Services and other	—	885	563	(584)	864
Total revenues	—	4,291	563	(576)	4,278
Cost of sales, buying and occupancy - merchandise sales	—	2,795	—	20	2,815
Cost of sales and occupancy - services and other	—	584	220	(313)	491
Total cost of sales, buying and occupancy	—	3,379	220	(293)	3,306
Selling and administrative	(33)	1,229	210	(283)	1,123
Depreciation and amortization	—	67	16	—	83
Impairment charges	—	5	—	—	5
(Gain) loss on sales of assets	6	(386)	—	—	(380)
Total costs and expenses	(27)	4,294	446	(576)	4,137
Operating income (loss)	27	(3)	117	—	141
Interest expense	(154)	(237)	(4)	272	(123)
Interest and investment income (loss)	28	64	168	(272)	(12)
Other loss	—	(246)	—	—	(246)
Income (loss) before income taxes	(99)	(422)	281	—	(240)
Income tax (expense) benefit	—	21	(31)	—	(10)
Equity (deficit) in earnings in subsidiaries	(151)	176	—	(25)	—
NET INCOME (LOSS) ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS	$ (250)	$ (225)	$ 250	$ (25)	$ (250)

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

Condensed Consolidating Statement of Operations
For the 26 Weeks Ended August 4, 2018

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Merchandise sales	$ —	$ 4,619	$ —	$ 21	$ 4,640
Services and other	1	1,446	1,045	(1,059)	1,433
Total revenues	1	6,065	1,045	(1,038)	6,073
Cost of sales, buying and occupancy - merchandise sales	1	3,894	—	59	3,954
Cost of sales and occupancy - services and other	—	998	427	(613)	812
Total cost of sales, buying and occupancy	1	4,892	427	(554)	4,766
Selling and administrative	6	1,873	375	(484)	1,770
Depreciation and amortization	—	106	27	—	133
Impairment charges	—	11	80	—	91
Gain on sales of assets	—	(187)	(81)	—	(268)
Total costs and expenses	7	6,695	828	(1,038)	6,492
Operating income (loss)	(6)	(630)	217	—	(419)
Interest expense	(387)	(564)	(91)	688	(354)
Interest and investment income	89	176	445	(707)	3
Other loss	—	(172)	—	—	(172)
Income (loss) before income taxes	(304)	(1,190)	571	(19)	(942)
Income tax (expense) benefit	—	61	(51)	—	10
Equity (deficit) in earnings in subsidiaries	(609)	357	—	252	—
NET INCOME (LOSS) ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS	$ (913)	$ (772)	$ 520	$ 233	$ (932)

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

Condensed Consolidating Statement of Operations
For the 26 Weeks Ended July 29, 2017

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Merchandise sales	$ —	$ 6,730	$ —	$ 13	$ 6,743
Services and other	—	1,756	1,161	(1,183)	1,734
Total revenues	—	8,486	1,161	(1,170)	8,477
Cost of sales, buying and occupancy - merchandise sales	—	5,547	—	47	5,594
Cost of sales and occupancy - services and other	—	1,188	443	(651)	980
Total cost of sales, buying and occupancy	—	6,735	443	(604)	6,574
Selling and administrative	(32)	2,515	427	(566)	2,344
Depreciation and amortization	—	138	32	—	170
Impairment charges	—	20	—	—	20
Gain on sales of assets	(486)	(635)	—	—	(1,121)
Total costs and expenses	(518)	8,773	902	(1,170)	7,987
Operating income (loss)	518	(287)	259	—	490
Interest expense	(271)	(458)	(8)	486	(251)
Interest and investment income (loss)	38	103	331	(486)	(14)
Other loss	—	(292)	—	—	(292)
Income (loss) before income taxes	285	(934)	582	—	(67)
Income tax (expense) benefit	—	150	(88)	—	62
Equity (deficit) in earnings in subsidiaries	(290)	349	—	(59)	—
NET INCOME (LOSS) ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS	$ (5)	$ (435)	$ 494	$ (59)	$ (5)

Condensed Consolidating Statement of Comprehensive Income (Loss)
For the 13 Weeks Ended August 4, 2018

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	$ (489)	$ (433)	$ 194	$ 220	$ (508)
Other comprehensive income (loss)					
Pension and postretirement adjustments, net of tax	—	218	—	—	218
Currency translation adjustments, net of tax	—	—	(1)	—	(1)
Unrealized net loss, net of tax	(8)	—	—	8	—
Total other comprehensive income (loss)	(8)	218	(1)	8	217
Comprehensive income (loss) attributable to Holdings' shareholders	$ (497)	$ (215)	$ 193	$ 228	$ (291)

Condensed Consolidating Statement of Comprehensive Income (Loss)
For the 13 Weeks Ended July 29, 2017

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	$ (250)	$ (225)	$ 250	$ (25)	$ (250)
Other comprehensive income					
Pension and postretirement adjustments, net of tax	—	127	—	—	127
Total other comprehensive income	—	127	—	—	127
Comprehensive income (loss) attributable to Holdings' shareholders	$ (250)	$ (98)	$ 250	$ (25)	$ (123)

Condensed Consolidating Statement of Comprehensive Income (Loss)
For the 26 Weeks Ended August 4, 2018

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	$ (913)	$ (772)	$ 520	$ 233	$ (932)
Other comprehensive income (loss)					
Pension and postretirement adjustments, net of tax	—	254	—	—	254
Currency translation adjustments, net of tax	—	—	—	—	—
Unrealized net gain (loss), net of tax	(8)	—	3	5	—
Total other comprehensive income (loss)	(8)	254	3	5	254
Comprehensive income (loss) attributable to Holdings' shareholders	$ (921)	$ (518)	$ 523	$ 238	$ (678)

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

Condensed Consolidating Statement of Comprehensive Income (Loss)
For the 26 Weeks Ended July 29, 2017

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	$ (5)	$ (435)	$ 494	$ (59)	$ (5)
Other comprehensive income					
Pension and postretirement adjustments, net of tax	—	177	—	—	177
Currency translation adjustments, net of tax	—	—	1	—	1
Unrealized net gain, net of tax	—	—	26	(26)	—
Total other comprehensive income	—	177	27	(26)	178
Comprehensive income (loss) attributable to Holdings' shareholders	$ (5)	$ (258)	$ 521	$ (85)	$ 173

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

Condensed Consolidating Statement of Cash Flows
For the 26 Weeks Ended August 4, 2018

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ 8	$ (1,170)	$ 126	$ —	$ (1,036)
Proceeds from sales of property and investments	—	160	162	—	322
Purchases of property and equipment	—	(28)	(4)	—	(32)
Net investing with Affiliates	(245)	(94)	(795)	1,134	—
Net cash provided by (used in) investing activities	(245)	38	(637)	1,134	290
Proceeds from debt issuances	327	195	713	—	1,235
Repayments of long-term debt	(88)	(611)	(170)	—	(869)
Increase in short-term borrowings, primarily 90 days or less	—	389	—	—	389
Proceeds from sale-leaseback financing	—	130	—	—	130
Debt issuance costs	(2)	(4)	(28)	—	(34)
Net borrowing with Affiliates	94	1,040	—	(1,134)	—
Net cash provided by financing activities	331	1,139	515	(1,134)	851
NET INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	94	7	4	—	105
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH BEGINNING OF YEAR	154	152	30	—	336
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH END OF PERIOD	$ 248	$ 159	$ 34	$ —	$ 441

SEARS HOLDINGS CORPORATION
Notes to Condensed Consolidated Financial Statements—(Continued)
(Unaudited)

Condensed Consolidating Statement of Cash Flows
For the 26 Weeks Ended July 29, 2017

millions	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ (11)	$ (1,436)	$ 309	$ —	$ (1,138)
Proceeds from sales of property and investments	—	569	—	—	569
Proceeds from Craftsman sale	572	—	—	—	572
Proceeds from sales of receivables	293	—	—	—	293
Purchases of property and equipment	—	(36)	(5)	—	(41)
Net investing with Affiliates	(582)	—	(298)	880	—
Net cash provided by (used in) investing activities	283	533	(303)	880	1,393
Proceeds from debt issuances	—	330	—	—	330
Repayments of long-term debt	(39)	(678)	—	—	(717)
Increase in short-term borrowings, primarily 90 days or less	—	216	—	—	216
Proceeds from sale-leaseback financing	—	89	—	—	89
Debt issuance costs	(3)	(14)	—	—	(17)
Net borrowing with Affiliates	—	880	—	(880)	—
Net cash provided by (used in) financing activities	(42)	823	—	(880)	(99)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	230	(80)	6	—	156
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH BEGINNING OF YEAR	—	260	26	—	286
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH END OF PERIOD	$ 230	$ 180	$ 32	$ —	$ 442

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended February 3, 2018.

OVERVIEW OF HOLDINGS

Holdings, the parent company of Kmart and Sears, was formed in connection with the March 24, 2005 merger of these two companies. We are an integrated retailer with significant physical and intangible assets, as well as virtual capabilities enabled through technology. We operate a national network of stores with 866 full-line and specialty retail stores in the United States as of August 4, 2018, operating as Kmart and Sears. Further, we operate a number of websites under the Sears.com and Kmart.com banners, which offer millions of products and provide the capability for our members and customers to engage in cross-channel transactions such as *free store pickup; buy in store/ship to home; and buy online, return in store.* We are also the home of Shop Your Way®, a free membership program that connects its members to personalized products, programs and partners that help them save time and money every day. Through an extensive network of national and local partners, members can shop thousands of their favorite brands, dine out and access an array of exclusive partners to earn points to redeem for savings on future purchases at Sears, Kmart, Lands' End and at ShopYourWay.com.

We conduct our operations in two business segments: Kmart and Sears Domestic. The nature of operations conducted within each of these segments is discussed within the "Business Segments" section of Item 1 of our Annual Report on Form 10-K for the fiscal year ended February 3, 2018. Our business segments have been determined in accordance with accounting standards regarding the determination, and reporting, of business segments.

SEARS HOLDINGS CORPORATION
13 and 26 Weeks Ended August 4, 2018 and July 29, 2017

CONSOLIDATED RESULTS OF OPERATIONS

	13 Weeks Ended		26 Weeks Ended	
millions, except per share data and percentages	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
REVENUES				
Merchandise sales	$ 2,428	$ 3,414	$ 4,640	$ 6,743
Services and other	754	864	1,433	1,734
Total revenues	3,182	4,278	6,073	8,477
COSTS AND EXPENSES				
Cost of sales, buying and occupancy - merchandise sales	2,055	2,815	3,954	5,594
Gross margin dollars - merchandise sales	373	599	686	1,149
Gross margin rate - merchandise sales	*15.4%*	*17.5%*	*14.8%*	*17.0%*
Cost of sales and occupancy - services and other	425	491	812	980
Gross margin dollars - services and other	329	373	621	754
Gross margin rate - services and other	*43.6%*	*43.2%*	*43.3%*	*43.5%*
Total cost of sales, buying and occupancy	2,480	3,306	4,766	6,574
Total gross margin dollars	702	972	1,307	1,903
Total gross margin rate	*22.1%*	*22.7%*	*21.5%*	*22.4%*
Selling and administrative	864	1,123	1,770	2,344
Selling and administrative expense as a percentage of total revenues	*27.2%*	*26.3%*	*29.1%*	*27.7%*
Depreciation and amortization	66	83	133	170
Impairment charges	77	5	91	20
Gain on sales of assets	(103)	(380)	(268)	(1,121)
Total costs and expenses	3,384	4,137	6,492	7,987
Operating income (loss)	(202)	141	(419)	490
Interest expense	(188)	(123)	(354)	(251)
Interest and investment income (loss)	2	(12)	3	(14)
Other loss	(139)	(246)	(172)	(292)
Loss before income taxes	(527)	(240)	(942)	(67)
Income tax (expense) benefit	19	(10)	10	62
NET LOSS ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS	$ (508)	$ (250)	$ (932)	$ (5)
NET LOSS PER COMMON SHARE ATTRIBUTABLE TO HOLDINGS' SHAREHOLDERS				
Basic loss per share	$ (4.68)	$ (2.33)	$ (8.61)	$ (0.05)
Diluted loss per share	$ (4.68)	$ (2.33)	$ (8.61)	$ (0.05)
Basic weighted average common shares outstanding	108.5	107.3	108.3	107.2
Diluted weighted average common shares outstanding	108.5	107.3	108.3	107.2

References to comparable store sales amounts within the following discussion include sales for all stores operating for a period of at least 12 full months, including remodeled and expanded stores, but excluding store relocations and stores that have undergone format changes. Comparable store sales amounts include sales from sears.com and kmart.com shipped directly to customers. These online sales resulted in a benefit to our comparable store sales of 50 basis points for both the 13- and 26- week periods ended August 4, 2018, and a negative impact to our comparable store sales of 70 basis points for both the 13- and 26- week periods ended July 29, 2017. In addition, comparable store sales have been adjusted for the change in the unshipped sales reserves recorded at the end of each reporting period, which resulted in a negative impact of approximately 50 basis points for both the 13- and 26- week periods ended August 4, 2018, respectively. The change in unshipped sales reserves resulted in a benefit of approximately 60 basis points and 40 basis points, respectively, for the 13- and 26- week periods ended July 29, 2017.

Our fiscal 2018 second quarter and first half was comprised of the 13- and 26- week periods, respectively, ended August 4, 2018, while our fiscal 2017 second quarter and first half was comprised of the 13- and 26- week periods, respectively, ended July 29, 2017. This one week shift in sales had no impact on the comparable store sales results reported herein due to the fact that for purposes of reporting comparable store sales for the second quarter, weeks 14 through 26 for fiscal 2018 have been compared to weeks 15 through 27 of fiscal 2017, and for purposes of reporting comparable sales for the first half, weeks one through 26 for fiscal 2018 have been compared to weeks two through 27 of fiscal 2017, thereby eliminating the impact of the one week shift.

Net Loss Attributable to Holdings' Shareholders, Net Loss per Share and Adjusted EBITDA

We recorded a net loss attributable to Holdings' shareholders of $508 million, or $4.68 loss per diluted share, and $250 million, or $2.33 loss per diluted share, for the second quarter of 2018 and 2017, respectively. For the first half, we recorded a net loss attributable to Holdings' shareholders of $932 million, or $8.61 loss per diluted share, and $5 million, or $0.05 loss per diluted share, in 2018 and 2017, respectively.

In addition to our net loss attributable to Holdings' shareholders determined in accordance with Generally Accepted Accounting Principles ("GAAP"), for purposes of evaluating operating performance, we use Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA").

Adjusted EBITDA was determined as follows:

	13 Weeks Ended		26 Weeks Ended	
millions	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net loss attributable to Holdings per statement of operations	$ (508)	$ (250)	$ (932)	$ (5)
Income tax expense (benefit)	(19)	10	(10)	(62)
Interest expense	188	123	354	251
Interest and investment loss	(2)	12	(3)	14
Other loss	139	246	172	292
Operating income (loss)	(202)	141	(419)	490
Depreciation and amortization	66	83	133	170
Gain on sales of assets	(103)	(380)	(268)	(1,121)
Impairment charges	77	5	91	20
Before excluded items	(162)	(151)	(463)	(441)
Closed store reserve and severance	64	128	140	204
Other[(1)]	2	(24)	20	(9)
Amortization of deferred Seritage gain	(16)	(19)	(34)	(40)
Adjusted EBITDA	$ (112)	$ (66)	$ (337)	$ (286)

[(1)] The 13-week period ended August 4, 2018 consisted of items associated with natural disasters, as well as transaction costs associated with strategic initiatives, while the 26-week period ended August 4, 2018 consisted of items associated with an insurance transaction and natural disasters, as well as transaction costs associated with strategic initiatives. The 13- and 26-

week periods ended July 29, 2017 consisted of items associated with legal matters and transaction costs associated with strategic initiatives.

Adjusted EBITDA for our segments was as follows:

	13 Weeks Ended					
	August 4, 2018			July 29, 2017		
millions	Kmart	Sears Domestic	Sears Holdings	Kmart	Sears Domestic	Sears Holdings
Operating income (loss) per statement of operations	$ (16)	$ (186)	$ (202)	$ 19	$ 122	$ 141
Depreciation and amortization	9	57	66	14	69	83
Gain on sales of assets	(25)	(78)	(103)	(79)	(301)	(380)
Impairment charges	—	77	77	3	2	5
Before excluded items	(32)	(130)	(162)	(43)	(108)	(151)
Closed store reserve and severance	13	51	64	68	60	128
Other[1]	(12)	14	2	(24)	—	(24)
Amortization of deferred Seritage gain	(3)	(13)	(16)	(2)	(17)	(19)
Adjusted EBITDA	$ (34)	$ (78)	$ (112)	$ (1)	$ (65)	$ (66)
% to revenues	*(4.0)%*	*(3.3)%*	*(3.5)%*	*(0.1)%*	*(2.3)%*	*(1.5)%*

	26 Weeks Ended					
	August 4, 2018			July 29, 2017		
millions	Kmart	Sears Domestic	Sears Holdings	Kmart	Sears Domestic	Sears Holdings
Operating income (loss) per statement of operations	$ (89)	$ (330)	$ (419)	$ 469	$ 21	$ 490
Depreciation and amortization	18	115	133	27	143	170
Gain on sales of assets	(65)	(203)	(268)	(676)	(445)	(1,121)
Impairment charges	6	85	91	8	12	20
Before excluded items	(130)	(333)	(463)	(172)	(269)	(441)
Closed store reserve and severance	41	99	140	102	102	204
Other[1]	(12)	32	20	(24)	15	(9)
Amortization of deferred Seritage gain	(5)	(29)	(34)	(6)	(34)	(40)
Adjusted EBITDA	$ (106)	$ (231)	$ (337)	$ (100)	$ (186)	$ (286)
% to revenues	*(6.5)%*	*(5.2)%*	*(5.5)%*	*(3.5)%*	*(3.3)%*	*(3.4)%*

[1] The 13-week period ended August 4, 2018 consisted of items associated with natural disasters, as well as transaction costs associated with strategic initiatives, while the 26-week period ended August 4, 2018 consisted of items associated with an insurance transaction and natural disasters, as well as transaction costs associated with strategic initiatives. The 13- and 26- week periods ended July 29, 2017 consisted of items associated with legal matters and transaction costs associated with strategic initiatives.

The following tables set forth the impact each excluded item used in calculating Adjusted EBITDA had on specific income and expense amounts reported in our Consolidated Statements of Operations during the 13- and 26- weeks ended August 4, 2018 and July 29, 2017.

millions	13 Weeks Ended August 4, 2018			
Other Excluded Items:	**Closed store reserve and severance**	**Other[(1)]**	**Amortization of deferred Seritage gain**	**Total**
Gross margin impact	$ 43	$ —	$ (16)	$ 27
Selling and administrative impact	21	2	—	23
Total	$ 64	$ 2	$ (16)	$ 50

millions	13 Weeks Ended July 29, 2017			
Other Excluded Items:	**Closed store reserve and severance**	**Other[(1)]**	**Amortization of deferred Seritage gain**	**Total**
Gross margin impact	$ 89	$ —	$ (19)	$ 70
Selling and administrative impact	39	(24)	—	15
Total	$ 128	$ (24)	$ (19)	$ 85

millions	26 Weeks Ended August 4, 2018			
Other Excluded Items:	**Closed store reserve and severance**	**Other[(1)]**	**Amortization of deferred Seritage gain**	**Total**
Gross margin impact	$ 52	$ —	$ (34)	$ 18
Selling and administrative impact	88	20	—	108
Total	$ 140	$ 20	$ (34)	$ 126

millions	26 Weeks Ended July 29, 2017			
Other Excluded Items:	**Closed store reserve and severance**	**Other[(1)]**	**Amortization of deferred Seritage gain**	**Total**
Gross margin impact	$ 104	$ —	$ (40)	$ 64
Selling and administrative impact	100	(9)	—	91
Total	$ 204	$ (9)	$ (40)	$ 155

(1) The 13- week period ended August 4, 2018 consisted of items associated with natural disasters, as well as transactions costs associated with strategic initiatives, while the 26- week period ended August 4, 2018 consisted of items associated with an insurance transaction and natural disasters, as well as transaction costs associated with strategic initiatives. The 13- and 26- week periods ended July 29, 2017 consisted of items associated with legal matters and transaction costs associated with strategic initiatives.

Adjusted EBITDA is computed as net loss attributable to Sears Holdings Corporation appearing on the Statements of Operations excluding income attributable to noncontrolling interests, income tax (expense) benefit, interest expense, interest and investment loss, other loss, depreciation and amortization, gain on sales of assets and impairment charges. In addition, it is adjusted to exclude certain significant items as set forth below. Our management uses Adjusted EBITDA to evaluate the operating performance of our businesses, as well as executive compensation metrics, for comparable periods. Adjusted EBITDA should not be used by investors or other third parties as the sole basis for formulating investment decisions as it excludes a number of important cash and non-cash recurring items.

While Adjusted EBITDA is a non-GAAP measurement, management believes that it is an important indicator of ongoing operating performance, and useful to investors, because:

- EBITDA excludes the effects of financings and investing activities by eliminating the effects of interest and depreciation costs;
- Management considers gains/(losses) on the sale of assets to result from investing decisions rather than ongoing operations; and
- Other significant items, while periodically affecting our results, may vary significantly from period to period and have a disproportionate effect in a given period, which affects comparability of results. We have adjusted our results for these items to make our statements more comparable and therefore more useful to investors as the items are not representative of our ongoing operations and reflect past investment decisions.

Pension expense is recorded within other loss, which is excluded from Adjusted EBITDA, and further explained as follows:

- Pension expense – Contributions to our pension plans remain a significant use of our cash on an annual basis. Cash contributions to our pension and postretirement plans are separately disclosed on the cash flow statement. While the Company's pension plans are frozen, and thus associates do not currently earn pension benefits, we have a legacy pension obligation for past service performed by Kmart and Sears associates. The annual pension expense included in our statement of operations related to these legacy domestic pension plans was relatively minimal in years prior to 2009. However, due to the severe decline in the capital markets that occurred in the latter part of 2008, and the resulting abnormally low interest rates, which continue to persist, our pension and postretirement benefit expense was $657 million in 2017, $317 million in 2016 and $228 million in 2015. Pension expense is comprised of interest cost, expected return on plan assets and recognized net loss and other. This adjustment eliminates total net periodic benefit from the statement of operations to improve comparability. Pension expense is included in the determination of net loss.

  In conjunction with executing a lump sum settlement offer in April 2018, the Company recorded non-cash charges of $108 million during the second quarter of 2018, for losses previously accumulated in other comprehensive income (loss), which were recognized through the statement of operations upon settlement. Also, in conjunction with executing an agreement to purchase group annuity contracts in May 2017, the Company recorded non-cash charges of $200 million during the second quarter of 2017, for losses previously accumulated in other comprehensive income (loss), which were recognized through the statement of operations upon settlement.

  The components of net periodic expense were as follows:

	13 Weeks Ended		26 Weeks Ended	
millions	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Components of net periodic expense:				
Interest cost	$ 37	$ 45	$ 74	$ 98
Expected return on plan assets	(41)	(46)	(81)	(103)
Amortization of experience losses	142	247	178	297
Net periodic expense	$ 138	$ 246	$ 171	$ 292

  In accordance with GAAP, we recognize on the balance sheet actuarial gains and losses for defined benefit pension plans annually in the fourth quarter of each fiscal year and whenever a plan is determined to qualify for a remeasurement during a fiscal year. For income statement purposes, these actuarial gains and losses are recognized throughout the year through an amortization process. The Company recognizes in its results of operations, as a corridor adjustment, any unrecognized actuarial net gains or losses that exceed 10% of the larger of projected benefit obligations or plan assets. Accumulated gains/losses that are inside the 10% corridor are not recognized, while accumulated actuarial gains/losses that are outside the 10% corridor are amortized over the "average future service" of the population and are included in the recognized net loss and other line item above.

Actuarial gains and losses occur when actual experience differs from the estimates used to allocate the change in value of pension plans to expense throughout the year or when assumptions change, as they may each year. Significant factors that can contribute to the recognition of actuarial gains and losses include changes in discount rates used to remeasure pension obligations on an annual basis or upon a qualifying remeasurement, differences between actual and expected returns on plan assets and other changes in actuarial assumptions. Management believes these actuarial gains and losses are primarily financing activities that are more reflective of changes in current conditions in global financial markets (and in particular interest rates) that are not directly related to the underlying business and that do not have an immediate, corresponding impact on the benefits provided to eligible retirees. For further information on the actuarial assumptions and plan assets referenced above, see Management's Discussion and Analysis of Financial Condition and Results of Operations - Application of Critical Accounting Policies and Estimates - Defined Benefit Pension Plans, and Note 7 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended February 3, 2018.

These other significant items included in Adjusted EBITDA are further explained as follows:

- Closed store reserve and severance – We are transforming our Company to a less asset-intensive business model. Throughout this transformation, we continue to make choices related to our stores, which could result in sales, closures, lease terminations or a variety of other decisions.
- Other – Consisted of items associated with an insurance transaction, natural disasters, legal matters and transaction costs associated with strategic initiatives.
- Amortization of deferred Seritage gain – A portion of the gain on the Seritage transaction and certain other sale-leaseback transactions were deferred and will be recognized in proportion to the related rent expense, which is a component of cost of sales, buying and occupancy in the Consolidated Statements of Operations, over the lease terms. Management considers the amortization of the deferred Seritage gain to result from investing decisions rather than ongoing operations.

13-week period ended August 4, 2018 compared to the 13-week period ended July 29, 2017

Revenues and Comparable Store Sales

Total revenues decreased $1.1 billion to $3.2 billion for the second quarter of 2018 compared to the prior year second quarter, primarily driven by the decrease in merchandise sales of $986 million. The decline in merchandise sales was primarily driven by having fewer Kmart and Sears Full-line stores in operation, which accounted for approximately $824 million of the decline, as well as a 3.9% decline in comparable store sales during the quarter, which accounted for approximately $92 million of the decline. Services and other revenues declined $110 million for the second quarter of 2018, primarily driven by a decline in service-related revenues of approximately $70 million, as well as a decline in revenues from Sears Hometown and Outlet Stores, Inc. ("SHO") of approximately $65 million.

Kmart comparable store sales declined 3.7% during the second quarter of 2018 primarily driven by declines in the pharmacy, grocery & household and drugstore categories. Kmart also experienced positive comparable store sales in several categories including apparel, toys and footwear. Sears Domestic comparable store sales decreased 4.0% during the second quarter of 2018, primarily driven by decreases in the home appliances, mattresses, and consumer electronics categories, as well as declines at Sears Auto Centers. Sears Domestic also experienced positive comparable store sales in several categories including apparel, footwear and jewelry.

Gross Margin

Total gross margin decreased $270 million to $702 million for the second quarter of 2018, as compared to the prior year second quarter, primarily due to the above noted decline in sales, as well as a decline in gross margin rate for merchandise sales. Gross margin for the second quarter of 2018 included charges related to store closures of $43 million, compared to $89 million for the second quarter of 2017. Gross margin for the quarter also included credits of $16 million and $19 million in 2018 and 2017, respectively, related to the amortization of the deferred gain on sale of assets associated with the Seritage transaction.

Kmart's gross margin rate for the second quarter declined 40 basis points compared to the prior year second quarter, while Sears Domestic's gross margin rate declined 130 basis points for the quarter. Gross margin for Kmart and Sears Domestic were negatively impacted by expenses associated with store closures. Excluding the impact of significant items noted in our Adjusted EBITDA tables, Kmart's gross margin rate would have declined 330 basis points, while Sears Domestic's gross margin rate would have declined 80 basis points. The decline in Kmart's gross margin rate was primarily due to lower margins in the apparel, grocery & household and drugstore categories, partially offset by an improvement in the pharmacy category. The decline in Sears Domestic's gross margin rate was primarily due to a gross margin rate decline in the home appliances category. Both formats experienced an increase in promotional activity during the second quarter of 2018 compared to the prior year quarter, including an increase in Shop Your Way points.

In addition, as a result of the Seritage and JV transactions, the second quarter of 2018 included additional rent expense of approximately $29 million while the second quarter of 2017 included additional rent expense of approximately $44 million. Due to the structure of the leases, we expect that our cash rent obligations to Seritage and the joint venture partners will decline, over time, as space in these stores is recaptured. From the inception of the Seritage transaction to the end of our second quarter, we have received recapture notices on 64 properties and also exercised our right to terminate the lease on 75 properties.

Selling and Administrative Expenses

Selling and administrative expenses decreased $259 million in the second quarter of 2018 compared to the prior year, as expense reductions were realized as a result of the strategic actions to improve our operational efficiencies and reduce costs.

The second quarters of 2018 and 2017 included significant items related to store closings and severance, items associated with natural disasters, legal matters and transaction costs associated with strategic initiatives which aggregated to expense of $23 million and $15 million, respectively. Excluding these items, selling and administrative expenses declined $267 million from the prior year quarter primarily due to a decrease in payroll expense. In addition, advertising expense also declined as we shift away from traditional advertising to use of Shop Your Way points, which is included within gross margin.

Our selling and administrative expenses as a percentage of total revenues ("selling and administrative expense rate") was 27.2% for the second quarter of 2018, compared to 26.3% in the prior year, and increased due to the decline in revenues, partially offset by the overall decrease in expenses noted above.

Depreciation and Amortization

Depreciation and amortization expense decreased by $17 million in the second quarter of 2018 to $66 million, primarily due to having fewer assets to depreciate.

Impairment Charges

We recorded impairment charges of $77 million in the second quarter of 2018, which included impairment of $69 million related to the Kenmore trade name, as well as $8 million related to the impairment of long-lived assets. We recorded impairment charges of $5 million during the second quarter of 2017, related to the impairment of long-lived assets. Impairment charges recorded are described further in Note 3 of Notes to Condensed Consolidated Financial Statements.

Gain on Sales of Assets

We recorded total gains on sales of assets for the quarter of $103 million in 2018 and $380 million in 2017, which were primarily a result of several real estate transactions. The gains recorded during 2018 included gains of $71 million recognized on the sale or amendment and lease termination of 21 locations and $28 million as a result of recapture and lease termination activity. The gains recorded during 2017 included $262 million recognized on the sale of nine Sears Full-line stores and one Kmart store and $53 million of gains as a result of recapture activity and one store that qualified for sales recognition and sale-leaseback accounting in the second quarter. See Note 3 of Notes to Condensed Consolidated Financial Statements for further discussion of the gain on sales of assets.

Operating Income (Loss)

The Company reported an operating loss of $202 million in the second quarter of 2018 compared to operating income of $141 million in the second quarter of 2017. Operating loss for the second quarter of 2018 and operating income for the second quarter of 2017 included significant items, as noted in the Adjusted EBITDA tables, which aggregated to operating expense of $50 million and $85 million, respectively. Both 2018 and 2017 also included charges related to impairments, as well as gain on sales of assets. Taking these significant items into consideration, the increase in operating loss in 2018 was primarily driven by the overall decline in gross margin noted above, partially offset by the decrease in selling and administrative expenses.

Interest and Investment Gain (Loss)

We recorded an interest and investment gain of $2 million during the second quarter of 2018 compared to a loss of $12 million during the second quarter of 2017. The second quarter of 2017 included a loss of $12 million related to our equity investment in Sears Canada.

Income Taxes

Our effective tax rate for the second quarter of 2018 was a benefit of 3.6% compared to an expense rate of 4.2% in the prior year second quarter. The application of the requirements for accounting for income taxes in interim periods, after consideration of our valuation allowance, causes a significant variation in the typical relationship between income tax expense and pretax income. Our tax rate in 2018 continues to reflect the effect of not recognizing the benefit of current period losses in certain domestic jurisdictions where it is not more likely than not that such benefits would be realized. The 2018 rate reflects the impacts of the valuation allowance release through continuing operations, relating to the gain on pension and other postretirement benefits, creating a tax benefit with the offsetting tax expense reflected in OCI, a tax benefit on the deferred taxes related to the partial impairment of the Kenmore trade name and the Tax Cuts and Jobs Act, including the federal tax rate of 21%, the effect of taxes on foreign earnings and changes to previously deductible expenses. The SEC staff issued Staff Accounting Bulletin ("SAB") 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting in accordance with accounting standards applicable to income taxes. We made reasonable estimates of certain effects of the Tax Act and recorded provisional adjustments for fiscal 2017 which we will continue to refine throughout fiscal 2018. In addition, the second quarter of 2018 was positively impacted by the reversal of deferred taxes related to indefinite-life assets associated with property sales and negatively impacted by foreign branch taxes and state income taxes. During the first quarter of 2017, the Company realized a significant tax benefit on the reversal of deferred taxes related to the Craftsman Sale. In addition, during the second quarter of 2017, the Company realized a tax benefit on the reversal of deferred taxes related to indefinite-life assets associated with property sold during the quarter.

26-week period ended August 4, 2018 compared to the 26-week period ended July 29, 2017

Revenues and Comparable Store Sales

Total revenues decreased $2.4 billion to $6.1 billion for the first half of 2018, as compared to revenues of $8.5 billion for the first half of 2017, primarily driven by the decrease in merchandise sales of $2.1 billion. The decrease in revenue was primarily driven by the effect of having fewer Kmart and Sears Full-line stores in operation, which accounted for $1.6 billion of the decline, as well as a decrease in comparable store sales of 8.2% during the first half of 2018, which accounted for $391 million of the revenue decline. Services and other revenues declined $301 million during the first half of 2018 as compared to the first half of 2017, primarily driven by a decline in service-related revenues of approximately $161 million, as well as a decline in revenues from SHO of approximately $141 million during the first half of 2018 compared to the first half of 2017.

Kmart comparable store sales decreased 7.1%, primarily driven by declines experienced in the pharmacy, grocery & household, drugstore and sporting good categories. Kmart did experience positive comparable stores sales in several categories including apparel, toys, jewelry and footwear. Sears Domestic comparable store sales decreased 8.9%, primarily driven by decreases in the home appliances, lawn & garden, mattresses and consumer electronics

categories, as well as declines at Sears Auto Centers. Sears Domestic also experienced positive comparable store sales in several categories including apparel and jewelry.

Gross Margin

Total gross margin decreased $596 million to $1.3 billion for the first half of 2018, as compared to the prior year, primarily due to the above noted decline in sales, as well as a decline in gross margin rate for merchandise sales. Gross margin for the first half of 2018 included charges related to store closures of $52 million, compared to $104 million for the first half of 2017. Gross margin for the first half also included credits of $34 million and $40 million in 2018 and 2017, respectively, related to the amortization of the deferred gain on sale of assets associated with the Seritage transaction.

As compared to the prior year period, Kmart's gross margin rate for the first half of 2018 improved 30 basis points, while Sears Domestic's gross margin rate declined 190 basis points. Gross margin for Kmart and Sears Domestic were negatively impacted by expenses associated with store closures. Excluding the impact of significant items noted in the Adjusted EBITDA tables, Kmart's gross margin rate would have declined 160 basis points, while Sears Domestic's gross margin rate would also have declined 160 basis points. The decline in Kmart's gross margin rate was primarily driven by apparel, grocery & household and drugstore categories, partially offset by an improvement in the pharmacy category. The decline in Sears Domestic's gross margin rate was primarily driven by rate declines in the apparel and home appliances categories.

In addition, as a result of the Seritage and JV transactions, the first half of 2018 and 2017 included additional rent expense of approximately $61 million and $89 million, respectively. Due to the structure of the leases, we expect that our cash rent obligations to Seritage and the joint venture partners will decline, over time, as space in these stores is recaptured. From the inception of the Seritage transaction to the end of our second quarter, we have received recapture notices on 64 properties and also exercised our right to terminate the lease on 75 properties.

Selling and Administrative Expenses

Selling and administrative expenses decreased $574 million in the first half of 2018 compared to the first half of 2017, as expense reductions were realized as a result of the strategic actions to improve our operational efficiencies and reduce costs.

The first half of 2018 and 2017 included significant items related to store closings and severance, items associated with an insurance transaction, natural disasters, legal matters and transaction costs associated with strategic initiatives which aggregated to expense of $108 million and $91 million, respectively. Excluding these items, selling and administrative expenses in 2018 declined $591 million from the first half of the prior year primarily due to a decrease in payroll expense. In addition, advertising expense also declined as we shift away from traditional advertising to use of Shop Your Way points, which is included within gross margin.

Our selling and administrative expense rate was 29.1% for the first half of 2018, compared to 27.7% in the prior year, and increased as the decrease in expenses noted above was more than offset by the decline in revenues.

Depreciation and Amortization

Depreciation and amortization expense decreased by $37 million in the first half of 2018 to $133 million, primarily due to having fewer assets to depreciate.

Impairment Charges

We recorded impairment charges of $91 million during the first half of 2018, which included impairment of $69 million related to the Kenmore trade name, as well as $22 million related to the impairment of long-lived assets. We recorded impairment charges of $20 million during the first half of 2017, related to the impairment of long-lived assets. Impairment charges recorded are described further in Note 3 of Notes to Condensed Consolidated Financial Statements.

Gain on Sales of Assets

We recorded total gains on sales of assets of $268 million and $1.1 billion for the first half of 2018 and 2017, respectively. The gains recorded during 2018 included gains of $157 million recognized on the sale or amendment and lease termination of 43 locations, $68 million as a result of recapture and lease termination activity and $21 million that was previously deferred for three stores that qualified for sales recognition and sale-leaseback accounting. The gains recorded during 2017 included a gain of $492 million recognized on the Craftsman Sale, in addition to $386 million recognized on the sale of 12 Sears Full-line stores and two Kmart stores and $118 million of gains as a result of recapture and lease termination activity and two stores that qualified for sales recognition and sale-leaseback accounting in the first half. See Note 3 of Notes to Condensed Consolidated Financial Statements for further discussion of the gain on sales of assets.

Operating Income (Loss)

The Company reported an operating loss of $419 million in the first half of 2018 as compared to operating income of $490 million in the first half of 2017. Operating loss for the first half of 2018 and operating income for the first half of 2017 included significant items, as noted in the Adjusted EBITDA tables, which aggregated to operating expense of $126 million and $155 million, respectively. Both 2018 and 2017 also included charges related to impairments, as well as gains on sales of assets. Taking these significant items into consideration, the increase in operating loss in 2018 was primarily driven by the overall decline in gross margin noted above, partially offset by the decrease in selling and administrative expenses.

Interest and Investment Gain (Loss)

We recorded an interest and investment gain of $3 million during the first half of 2018 compared to a loss of $14 million during the first half of 2017. The first half of 2017 included a loss of $17 million related to our equity investment in Sears Canada.

Income Taxes

Our effective tax rate for the first half of 2018 was a benefit rate of 1.1% compared to a benefit rate of 92.5% for the first half of 2017. The application of the requirements for accounting for income taxes in interim periods, after consideration of our valuation allowance, causes a significant variation in the typical relationship between income tax expense and pretax income. Our tax rate in 2018 continues to reflect the effect of not recognizing the benefit of current period losses in certain domestic jurisdictions where it is not more likely than not that such benefits would be realized. The 2018 rate reflects the impacts of the valuation allowance release through continuing operations, relating to the gain on pension and other postretirement benefits, creating a tax benefit with the offsetting tax expense reflected in OCI, a tax benefit on the deferred taxes related to the partial impairment of the Kenmore trade name and the Tax Cuts and Jobs Act, including the federal tax rate of 21%, the effect of taxes on foreign earnings and changes to previously deductible expenses. The SEC staff issued Staff Accounting Bulletin ("SAB") 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting in accordance with accounting standards applicable to income taxes. We made reasonable estimates of certain effects

of the Tax Act and recorded provisional adjustments for fiscal 2017 which we will continue to refine throughout fiscal 2018. In addition, the first half of 2018 was positively impacted by the reversal of deferred taxes related to indefinite-life assets associated with property sales and negatively impacted by foreign branch taxes and state income taxes. During the first half of 2017, the Company realized a significant tax benefit on the reversal of deferred taxes related to the Craftsman Sale.

SEGMENT OPERATIONS

The following discussion of our business segment results is organized into two reportable segments: Kmart and Sears Domestic.

Kmart

Kmart results and key statistics were as follows:

	13 Weeks Ended		26 Weeks Ended	
millions, except number of stores	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Total revenues	$ 840	$ 1,442	$ 1,637	$ 2,889
Cost of sales, buying and occupancy	680	1,162	1,324	2,346
Gross margin dollars	160	280	313	543
Gross margin rate	*19.0%*	*19.4%*	*19.1%*	*18.8%*
Selling and administrative	192	323	443	715
Selling and administrative expense as a percentage of total revenues	*22.9%*	*22.4%*	*27.1%*	*24.7%*
Depreciation and amortization	9	14	18	27
Impairment charges	—	3	6	8
Gain on sales of assets	(25)	(79)	(65)	(676)
Total costs and expenses	856	1,423	1,726	2,420
Operating income (loss)	$ (16)	$ 19	$ (89)	$ 469
Adjusted EBITDA	$ (34)	$ (1)	$ (106)	$ (100)
Number of stores			360	610

13-week period ended August 4, 2018 compared to the 13-week period ended July 29, 2017

Revenues and Comparable Store Sales

For the quarter, Kmart's revenues decreased by $602 million to $840 million in 2018, primarily due to the effect of having fewer stores in operation, which accounted for approximately $536 million of the decline, as well as the decrease in comparable store sales of 3.7%, which accounted for approximately $34 million of the decline.

The decline in comparable store sales for the quarter was primarily driven by declines in the pharmacy, grocery & household and drugstore categories. Kmart also experienced positive comparable store sales in several categories including apparel, toys and footwear.

Gross Margin

For the quarter, Kmart generated total gross margin dollars of $160 million in 2018 compared to $280 million in 2017. Gross margin for the second quarter included charges of $17 million and $68 million in 2018 and 2017, respectively, related to store closures. Gross margin for the second quarter also included credits of $3 million and $2 million in 2018 and 2017, respectively, related to the amortization of the deferred gain on sale of assets associated with the Seritage transaction.

Kmart's gross margin rate for the quarter declined 40 basis points to 19.0% in 2018 from 19.4% in 2017. Excluding the impact of significant items recorded in gross margin during the quarter, Kmart's gross margin rate would have declined 330 basis points. The decline in Kmart's gross margin rate was primarily due to lower margins in the apparel, grocery & household and drugstore categories, partially offset by an improvement in the pharmacy

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category. Kmart experienced an increase in promotional activity during the second quarter of 2018 compared to the prior year quarter, including an increase in Shop Your Way points.

In addition, as a result of the Seritage and JV transactions, the second quarter of 2018 and 2017 included additional rent expense of approximately $4 million and $5 million, respectively.

Selling and Administrative Expenses

For the quarter, Kmart's selling and administrative expenses decreased $131 million in 2018 as compared to the second quarter in 2017. Selling and administrative expenses for the second quarter of 2018 and 2017 were impacted by significant items related to store closures, as well as legal matters, which aggregated to income of $16 million in 2018 and $24 million in 2017. Excluding these items, selling and administrative expenses decreased $139 million primarily due to decreases in payroll and advertising expenses.

Kmart's selling and administrative expense rate for the quarter was 22.9% in 2018 and 22.4% in 2017 and increased due to the decline in revenues, partially offset by the overall decrease in expenses noted above.

Gain on Sales of Assets

Kmart recorded a total gain on sales of assets for the quarter of $25 million and $79 million in 2018 and 2017, respectively, which were primarily a result of several real estate transactions. The gains recorded in the second quarter of 2018 included gains of $23 million recognized on the sale or amendment and lease termination of three locations. The gains recorded in the second quarter of 2017 included $12 million recognized on the sale of one Kmart store and $3 million of gains as a result of recapture activity. See Note 3 of Notes to Condensed Consolidated Financial Statements for further discussion of the gain on sales of assets.

Operating Income (Loss)

For the quarter, Kmart recorded an operating loss of $16 million and operating income of $19 million in 2018 and 2017, respectively. Operating loss for the second quarter of 2018 included significant items, as noted in the Adjusted EBITDA tables, which aggregated to operating income of $2 million, while operating income for the second quarter of 2017 included significant items, as noted in the Adjusted EBITDA tables, which aggregated to operating expense of $42 million. Both 2018 and 2017 also included charges related to impairments, as well as gains on sales of assets. Taking these significant items into consideration, the increase in Kmart's operating loss in 2018 was primarily driven by the decline in Kmart's gross margin noted above, partially offset by a decrease in selling and administrative expenses.

26-week period ended August 4, 2018 compared to the 26-week period ended July 29, 2017

Revenues and Comparable Store Sales

For the first half of 2018, Kmart's revenues decreased by $1.3 billion to $1.6 billion, primarily due to the effect of having fewer stores in operation, which accounted for approximately $1.1 billion of the decline, as well as the decrease in comparable store sales, which accounted for approximately $130 million of the decline.

Comparable store sales decreased 7.1%, primarily driven by declines experienced in the pharmacy, grocery & household, drugstore and sporting good categories. Kmart did experience positive comparable stores sales in several categories including apparel, toys, jewelry and footwear.

Gross Margin

For the first half of 2018, Kmart generated $313 million in gross margin compared to $543 million in the first half of 2017. The decrease in Kmart's gross margin dollars is due to a decrease in revenues, as well as a decrease in gross margin rate. Gross margin for the first half of the year included charges of $14 million and $78 million in 2018 and 2017, respectively, related to store closures. Gross margin for the first half of the year also included credits of $5 million and $6 million in 2018 and 2017, respectively, related to the amortization of the deferred gain on sale of assets associated with the Seritage transaction.

Kmart's gross margin rate for the first half of the year improved 30 basis points to 19.1% in 2018 from 18.8% in 2017. Excluding the impact of significant items recorded in gross margin during the first half of the year, Kmart's gross margin rate would have declined 160 basis points primarily driven by apparel, grocery & household and drugstore categories, partially offset by an improvement in the pharmacy category.

In addition, as a result of the Seritage and JV transactions, the first half of 2018 and 2017 included additional rent expense of approximately $8 million and $11 million, respectively.

Selling and Administrative Expenses

For the first half of 2018, Kmart's selling and administrative expenses decreased $272 million as compared to the first half of 2017. Selling and administrative expenses for the first half of 2018 and 2017 were impacted by significant items related to store closings and severance, as well as legal matters, which aggregated to expense of $15 million in 2018 and $0 million in 2017. Excluding these items, selling and administrative expenses decreased $287 million primarily due to decreases in payroll and advertising expenses.

Kmart's selling and administrative expense rate for the first half was 27.1% and 24.7% in 2018 and 2017, respectively, and increased primarily due to the decline in revenues, partially offset by the overall decrease in expenses noted above.

Gain on Sales of Assets

Kmart recorded a total gain on sales of assets for the first half of $65 million and $676 million in 2018 and 2017, respectively. The gains recorded in the first half of 2018 included gains of $40 million recognized on the sale or amendment and lease termination of 12 locations. The gains recorded in the first half of 2017 included a gain of $492 million recognized on the Craftsman Sale, in addition to $40 million recognized on the sale of two Kmart stores and $30 million of gains as a result of recapture and lease termination activity. See Note 3 of Notes to Condensed Consolidated Financial Statements for further discussion of the gain on sales of assets.

Operating Income (Loss)

For the first half of the year, Kmart recorded an operating loss of $89 million in 2018, compared to operating income of $469 million in 2017. Operating loss for the first half of 2018 and operating income for the first half of 2017 included significant items, as noted in the Adjusted EBITDA tables, which aggregated to operating expense of $24 million in 2018 and $72 million in 2017. Both 2018 and 2017 also included charges related to impairments, as well as gains on sales of assets. Taking these significant items into consideration, the increase in Kmart's operating loss in 2018 was primarily driven by the decline in Kmart's gross margin noted above, partially offset by a decrease in selling and administrative expenses.

Sears Domestic

Sears Domestic results and key statistics were as follows:

	13 Weeks Ended		26 Weeks Ended	
millions, except number of stores	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Total revenues	$ 2,342	$ 2,836	$ 4,436	$ 5,588
Cost of sales, buying and occupancy	1,800	2,144	3,442	4,228
Gross margin dollars	542	692	994	1,360
Gross margin rate	*23.1%*	*24.4%*	*22.4%*	*24.3%*
Selling and administrative	672	800	1,327	1,629
Selling and administrative expense as a percentage of total revenues	*28.7%*	*28.2%*	*29.9%*	*29.2%*
Depreciation and amortization	57	69	115	143
Impairment charges	77	2	85	12
Gain on sales of assets	(78)	(301)	(203)	(445)
Total costs and expenses	2,528	2,714	4,766	5,567
Operating income (loss)	$ (186)	$ 122	$ (330)	$ 21
Adjusted EBITDA	$ (78)	$ (65)	$ (231)	$ (186)
Number of:				
Full-line stores			482	619
Specialty stores			24	21
Total Sears Domestic Stores			506	640

13-week period ended August 4, 2018 compared to the 13-week period ended July 29, 2017

Revenues and Comparable Store Sales

For the quarter, Sears Domestic's revenues decreased by $494 million to $2.3 billion. The decline in revenue was primarily driven by the effect of having fewer Full-line stores in operation, which accounted for approximately $288 million of the decline, as well as a decrease in comparable store sales of 4.0%, which accounted for $58 million of the decline. Sears Domestic's revenues also included a decline in service-related revenues of approximately $70 million, as well as a decline in revenues from SHO of approximately $65 million.

The decline in comparable store sales for the quarter was primarily driven by decreases in the home appliances, mattresses, and consumer electronics categories, as well as declines at Sears Auto Centers. Sears Domestic also experienced positive comparable store sales in several categories including apparel, footwear and jewelry.

Gross Margin

For the quarter, Sears Domestic generated gross margin dollars of $542 million in 2018, compared to $692 million in 2017. Gross margin for the second quarter included charges of $26 million and $21 million in 2018 and 2017, respectively, related to store closures. Gross margin for the second quarter also included credits of $13 million and $17 million in 2018 and 2017, respectively, related to the amortization of the deferred gain on sale of assets associated with the Seritage transaction.

Sears Domestic's gross margin rate for the quarter declined 130 basis points to 23.1% in 2018 from 24.4% in 2017. Excluding the impact of significant items recorded in gross margin during the quarter, Sears Domestic's gross margin rate would have declined 80 basis points primarily due to the gross margin rate decline in the home

appliances category. Sears Domestic experienced an increase in promotional activity during the second quarter of 2018 compared to the prior year quarter, including an increase in Shop Your Way points.

In addition, as a result of the Seritage and JV transactions, the second quarter of 2018 and 2017 included additional rent expense of approximately $25 million and $39 million, respectively.

Selling and Administrative Expenses

For the quarter, Sears Domestic's selling and administrative expenses decreased $128 million in 2018 as compared to the prior year. Selling and administrative expenses for the second quarter of 2018 and 2017 were impacted by significant items related to store closures and severance, items associated with natural disasters and transaction costs associated with strategic initiatives, which aggregated to expense of $39 million and $39 million, respectively. Excluding these items, selling and administrative expenses decreased $128 million primarily due to decreases in payroll expense and advertising expenses.

Sears Domestic's selling and administrative expense rate for the quarter was 28.7% in 2018 and 28.2% in 2017 and increased primarily due to the decline in revenues, as well as the overall increase in expenses noted above.

Gain on Sales of Assets

Sears Domestic recorded a total gain on sales of assets for the quarter of $78 million and $301 million in 2018 and 2017, respectively. The gains recorded in the second quarter of 2018 included gains of $48 million recognized on the sale or amendment and lease termination of 18 locations and $28 million as a result of recapture and lease termination activity. The gains recorded in the second quarter of 2017 included $250 million recognized on the sale of nine Sears Full-line stores and $50 million of gains as a result of recapture activity and one store that qualified for sales recognition and sale-leaseback accounting in the second quarter. See Note 3 of Notes to Condensed Consolidated Financial Statements for further discussion of the gain on sales of assets.

Operating Income (Loss)

For the quarter, Sears Domestic reported an operating loss of $186 million and operating income of $122 million in 2018 and 2017, respectively. Sears Domestic's operating loss for the second quarter of 2018 and operating income for the second quarter of 2017 included significant items, as noted in the Adjusted EBITDA tables, which aggregated to operating expense of $52 million and $43 million, respectively. Both 2018 and 2017 also included charges related to impairments, as well as gains on sales of assets. Taking these significant items into consideration, the increase in operating loss at Sears Domestic in 2018 was primarily driven by the decline in gross margin noted above, partially offset by a decrease in selling and administrative expenses.

26-week period ended August 4, 2018 compared to the 26-week period ended July 29, 2017

Revenues and Comparable Store Sales

For the first half of 2018, Sears Domestic's revenues decreased by $1.2 billion to $4.4 billion. The decline in revenue was primarily driven by the effect of having fewer Full-line stores in operation, which accounted for approximately $534 million of the decline, as well as a decrease in comparable store sales of 8.9%, which accounted for approximately $261 million of the decline. Sears Domestic's revenues also included a decline in service-related revenues of approximately $161 million, as well as a decline in revenues from SHO of approximately $141 million.

Comparable store sales for the first half of 2018 declined primarily driven by decreases in the home appliances, lawn & garden, mattresses and consumer electronics categories, as well as declines at Sears Auto Centers. Sears Domestic also experienced positive comparable store sales in several categories including apparel and jewelry.

Gross Margin

For the first half of the year, Sears Domestic generated gross margin dollars of $1.0 billion and $1.4 billion in 2018 and 2017, respectively. Gross margin for the first half of the year included charges of $38 million and $26 million in 2018 and 2017, respectively, related to store closures. Gross margin for the first half of 2018 and 2017 also included

credits of $29 million and $34 million, respectively, related to the amortization of the deferred gain on sale of assets associated with the Seritage transaction.

Sears Domestic's gross margin rate for the first half of the year declined 190 basis points to 22.4% in 2018 from 24.3% in 2017. Excluding the impact of significant items recorded in gross margin during the first half of 2018 and 2017, Sears Domestic's gross margin rate would have declined 160 basis points primarily due to rate declines in the apparel and home appliances categories.

In addition, as a result of the Seritage and JV transactions, the first half of 2018 and 2017 included additional rent expense of approximately $53 million and $78 million, respectively.

Selling and Administrative Expenses

For the first half of the year, Sears Domestic's selling and administrative expenses decreased $302 million in 2018 as compared to the prior year. Selling and administrative expenses for the first half of 2018 and 2017 were impacted by significant items related to store closures and severance, items associated with an insurance transaction, natural disasters and transaction costs associated with strategic initiatives, which aggregated to expense of $93 million and $91 million, respectively. Excluding these items, selling and administrative expenses decreased $304 million in the first half of 2018 primarily due to decreases in payroll and advertising expenses.

Sears Domestic's selling and administrative expense rate for the first half of the year was 29.9% in 2018 and 29.2% in 2017 and increased as a result of the decline in revenues, partially offset by the overall decrease in expenses noted above.

Depreciation and Amortization

Depreciation and amortization expense decreased by $28 million in the first half of 2018 to $115 million, primarily due to having fewer assets to depreciate.

Gain on Sales of Assets

Sears Domestic recorded a total gain on sales of assets of $203 million and $445 million for the first half of 2018 and 2017, respectively. The gains recorded in the first half of 2018 included gains of $117 million recognized on the sale or amendment and lease termination of 31 locations, $68 million as a result of recapture and lease termination activity and $21 million that was previously deferred for three stores that qualified for sales recognition and sale-leaseback accounting. The gains recorded in the first half of 2017 included gains of $346 million recognized on the sale of 12 Sears Full-line stores and $88 million of gains as a result of recapture and lease termination activity and two stores that qualified for sales recognition and sale-leaseback accounting in the first half. See Note 3 of Notes to Condensed Consolidated Financial Statements for further discussion of the gain on sales of assets.

Operating Income (Loss)

For the first half of the year, Sears Domestic reported an operating loss of $330 million and operating income of $21 million in 2018 and 2017, respectively. Sears Domestic's operating loss for the first half of 2018 and operating income for the first half of 2017 included significant items, as noted in the Adjusted EBITDA tables, which aggregated to operating expense of $102 million and $83 million, respectively. Both 2018 and 2017 also included charges related to impairments, as well as gains on sales of assets. Taking these significant items into consideration, the operating loss in 2018 was primarily driven by the decline in gross margin noted above, partially offset by a decrease in selling and administrative expenses.

ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION

Cash Balances

Our cash and cash equivalents include all highly liquid investments with original maturities of three months or less at the date of purchase. Our cash balances as of August 4, 2018, July 29, 2017 and February 3, 2018 are detailed in the following table.

millions	August 4, 2018	July 29, 2017	February 3, 2018
Cash and cash equivalents	$ 110	$ 121	$ 113
Cash posted as collateral	5	4	4
Credit card deposits in transit	78	87	65
Total cash and cash equivalents	193	212	182
Restricted cash	248	230	154
Total cash balances	$ 441	$ 442	$ 336

We had total cash balances of $441 million at August 4, 2018, compared to $442 million at July 29, 2017 and $336 million at February 3, 2018.

At various times, we have posted cash collateral for certain outstanding letters of credit and self-insurance programs. Such cash collateral is classified within cash and cash equivalents given that we have the ability to substitute letters of credit at any time for this cash collateral and it is therefore readily available to us. Our invested cash may include, from time to time, investments in, but not limited to, commercial paper, federal, state and municipal government securities, floating-rate notes, repurchase agreements and money market funds. Cash amounts held in these short-term investments are readily available to us. Credit card deposits in transit include deposits in transit from banks for payments related to third-party credit card and debit card transactions. The Company classifies cash balances that are legally restricted pursuant to contractual arrangements as restricted cash. The restricted cash balance relates to amounts deposited into an escrow for the benefit of our pension plans at each of August 4, 2018, July 29, 2017 and February 3, 2018.

We classify outstanding checks in excess of funds on deposit within other current liabilities and reduce cash balances when these checks clear the bank on which they were drawn. Outstanding checks in excess of funds on deposit were $66 million, $61 million and $74 million as of August 4, 2018, July 29, 2017 and February 3, 2018, respectively.

Operating Activities

During the first half of 2018, we used net cash in operating activities of $1.0 billion compared to $1.1 billion in the first half of 2017. Our primary source of operating cash flows is the sale of goods and services to customers, while the primary use of cash in operations is the purchase of merchandise inventories and the payment of operating expenses. We used less cash in operations for the first half of 2018 compared to the prior year primarily due to declines in merchandise payables and other liabilities, partially offset by a reduction in merchandise inventories. In addition, the Company received $425 million from Citibank pursuant to the Amendment as discussed in Note 1 of Notes to Condensed Consolidated Financial, and made payments of $208 million in connection with a commercial arrangement related to our insurance program.

Merchandise inventories were $2.7 billion and $3.4 billion at August 4, 2018 and July 29, 2017, respectively, while merchandise payables were $487 million and $670 million at August 4, 2018 and July 29, 2017, respectively. Our merchandise inventory balances at August 4, 2018 decreased approximately $719 million from the prior year third quarter due to both store closures and improved productivity. Sears Domestic inventory decreased in virtually all categories, with the most notable decreases in the apparel, tools and outdoor living categories. Kmart inventory also decreased in virtually all categories, with the most notable decreases in the apparel, drugstore, home, pharmacy and grocery & household categories.

Investing Activities

During the first half of 2018, we generated net cash flows from investing activities of $290 million, which consisted of cash proceeds from the sale of properties and investments of $322 million, partially offset by cash used for capital expenditures of $32 million. During the first half of 2017, we generated net cash flows from investing activities of $1.4 billion, which consisted of cash proceeds from the Craftsman Sale of $572 million, from the sale of properties and investments of $569 million and from the sale of receivables of $293 million, partially offset by cash used for capital expenditures of $41 million.

Financing Activities

For the first half of 2018, we generated net cash flows from financing activities of $851 million, which primarily consisted of proceeds of $513 million from borrowings under the Mezzanine Loan Agreement, $287 million of additional borrowings from the 2017 Secured Loan Facility, which includes an additional $186 million of borrowings under the Consolidated Secured Loan facility, $200 million from the Secured Loan and $125 million from the FILO Loan, as well as an increase in short-term borrowings of $389 million. These proceeds were partially offset by repayments of debt of $869 million, primarily repayments of amounts outstanding under the Company's Term Loan, the 2016 Secured Loan Facility, the Secured Loan, the 2017 Secured Loan Facility, the Line of Credit Loans and the Term Loan Facility. During the first half of 2017, we used net cash flows in financing activities of $99 million, which primarily consisted of repayments of debt of $717 million, primarily repayments of amounts outstanding under the Company's term loan, the 2016 Secured Loan Facility and the 2017 Secured Loan Facility, partially offset by proceeds of $330 million from the Line of Credit Loans, as well as an increase in short-term borrowings of $216 million.

Liquidity

We need liquidity to fund both working capital requirements of our businesses and necessary capital expenditures as well as to be available for general corporate purposes, including debt repayments and pension plan contributions. We have experienced losses and negative cash flows for a number of years and while we continue to focus on our overall profitability, including managing expenses, we have continued to incur operating losses in the second quarter and first half of 2018, and continued to fund cash used in operating activities with cash from investing and financing activities. In addition, we will be required to fund a debt payment of $134 million during October 2018, in addition to $668 million of other debt maturing in the next twelve months.

Recent Sources of Incremental Liquidity

The Company has taken a number of actions to support its ongoing transformation efforts, while continuing to support its operations and meet its obligations in light of the incurred losses and negative cash flows from operations experienced over the past several years. These actions can be broadly broken down into three categories: (i) financing transactions; (ii) asset sales; and (iii) operational streamlining, including store closings. These financing activities have included the completion of various secured and unsecured financing transactions, the extension of the maturity of certain of our indebtedness, and the amendment to other terms of certain of our indebtedness to increase our overall financial flexibility. The actions relative to our assets have included transactions to monetize the value of certain assets such as the sale of the Craftsman brand to Stanley Black & Decker in the first quarter of 2017 for consideration consisting of upfront cash payments and a future royalty stream, sales of properties and investments for proceeds of $1.1 billion in fiscal 2017, and an amendment to our credit card program agreement with Citibank, N.A. which resulted in a payment to the Company of $425 million during the second quarter of 2018. Streamlining actions have included a restructuring program announced at the beginning of 2017 (which produced cost savings during that year and into 2018) and the closure of 137 stores during 2018, and an additional 149 stores that will close during the second half of 2018. The Company intends to take further actions to streamline operations in 2018 to achieve additional cost reductions unrelated to store closures.

In addition to previous actions taken, the Company may access other sources of liquidity to support its operations. For instance, we are permitted to obtain longer-term secured financing maturing outside of the maturity date of our domestic credit facility which would not be subject to borrowing base limitations (see Note 2 of Notes to Consolidated Financial Statements). Other options which may be available to us, which we will evaluate and seek to

execute as appropriate, include refinancing existing debt, borrowing against facilities in place with availability and additional real estate loans against unencumbered properties, which we have successfully executed in the past.

Asset Monetization

A special committee of the board of directors (the "Board") of the Company (the "Special Committee") is overseeing a formal process to explore the sale of our Kenmore brand and related assets, the Sears Home Improvement Products business of the Sears Home Services division and the Parts Direct business of the Sears Home Services division (collectively, the "Sale Assets"). As previously reported, the Board received a letter from ESL Investments, Inc. ("ESL") expressing the view that the Company should pursue a divestiture of the Sale Assets in order to maximize their value, and expressing interest in participating as a purchaser of all or a portion of the Sale Assets should the Company do so. The Board established the Special Committee, which consists solely of independent directors, and is advised by independent advisors, to evaluate any proposals that may be received from ESL with respect to the Sale Assets, to actively solicit third-party interest in the Sale Assets, and to explore any other alternatives with respect to the Sale Assets that may maximize value for the Company. On August 14, 2018 the Special Committee received a non-binding proposal letter from ESL to acquire the Kenmore brand and related assets and the Sears Home Improvement Products business of the Sears Home Services division, each subject to various conditions including obtaining debt financing, and, in the case of Kenmore, obtaining equity financing on terms acceptable to ESL. The Special Committee is evaluating the proposal, and potentially other proposals as part of its formal process.

We also continue to explore ways to unlock value across a range of other assets and to maximize the value of our Sears Home Services, Innovel and Sears Auto Centers businesses, as well as our DieHard brand, through partnerships, sales or other means of externalization that could expand distribution of our brands and service offerings.

Our efforts also continue to right-size, redeploy and highlight the value of our assets, including monetizing our real estate portfolio, as we look to de-lever our balance sheet, provide liquidity and continue in our transition from an asset intensive, historically "store-only" based retailer to a more asset light, integrated membership-focused company.

Actions to Address Liquidity Needs

The following actions, which are intended to fund liquidity needs over the next twelve months, are in various stages of completion as of the date of this filing. We believe these actions, some of which we expect, subject to our governance processes, including the process being overseen by the Special Committee, to include related party participation and funding and, in the case of Sale Assets that are sold to ESL, subject to approval by a majority of the disinterested stockholders of Holdings, if completed, would be sufficient to satisfy our liquidity needs for the next twelve months from the issuance of the financial statements.

- Sales of properties securing the remaining principal amount of the Secured Loans to fund the repayment of such Secured Loans;
- Additional borrowings under the Mezzanine Loan Agreement, Term Loan Facility and the Consolidated Secured Loan Facility;
- Monetization of the Sale Assets;
- Extension of maturities beyond September 2019 of Line of Credit Loans under the Second Lien Credit Agreement;
- Additional borrowings secured by real estate assets, borrowings under the short-term basket, or other borrowings;
- Amendments to the terms of certain of our financing arrangements, including to allow interest on some of our debt to paid-in-kind;
- Further evaluation and right-sizing of our store base, including evaluation of our business categories; and
- Further restructurings to help manage expenses and improve profitability, including additional store closures and the accomplishments of our planned cost savings initiatives.

While we believe that completion of these actions would be sufficient to satisfy our liquidity needs for the next twelve months from the issuance of the financial statements, these actions have not been fully executed as of the date of this report and certain of the actions have not received necessary approvals (including but not limited to approval of the Special Committee and approval of a majority of the disinterested stockholders of the Company in the case of certain proposed transactions with ESL), and/or are at too early of a stage in the process to be considered probable of occurring under applicable accounting guidance as of the date of this report. Accordingly, because we cannot at this time conclude that these actions are probable of occurring under such accounting standards, substantial doubt is deemed to exist about our ability to continue as a going concern. The Company continues to move forward with these proposed actions, including the process being overseen by the Special Committee, and discussions with lenders, in order to complete these actions. The Company believes that completion of these actions, or in some cases substantial progress towards such completion, would alleviate or eliminate the substantial doubt. The Company will continue to reevaluate this assessment.

The PPPFA contains certain limitations on our ability to sell assets, including the Kenmore brand and related assets, which could impact our ability to complete asset sale transactions or our ability to use proceeds from those transactions to fund our operations. Therefore, the analysis of liquidity needs includes consideration of the applicable restrictions under the PPPFA and the ability to utilize related party borrowings to provide liquidity when there are short-term delays in the closing of transactions.

The success of the foregoing actions is subject to various risks, uncertainties and other factors, including market conditions, interest in specific assets and our ability to close the sales of assets at valuations and within time frames that are acceptable to us, our ability to effectively and timely execute the above actions to improve the operating performance of our businesses and, in certain cases, the approval and participation of third parties, including our creditors and the PBGC.

If we continue to experience operating losses and we are not able to generate additional liquidity through the actions described above or through some combination of other actions, then our liquidity needs may exceed availability under our Amended Domestic Credit Agreement, our second lien line of credit loan facility and our other existing facilities, and we might need to secure additional sources of funds, which may or may not be available to us. A failure to secure such additional funds could cause us to be in default under the Amended Domestic Credit Agreement or other financing agreement. Additionally, a failure to generate additional liquidity could negatively impact our access to inventory or services that are important to the operation of our business. Moreover, if the borrowing base (as calculated pursuant to our outstanding second lien debt) falls below the principal amount of such second lien debt plus the principal amount of any other indebtedness for borrowed money that is secured by liens on the collateral for such debt on the last day of any two consecutive quarters, it could trigger an obligation to repurchase our New Senior Secured Notes in an amount equal to such deficiency. As of August 4, 2018, our borrowing base was below the above threshold, and if our borrowing base is below the above threshold at the end of our third quarter of 2018, it would trigger an obligation to repurchase or repay second lien debt, in an amount equal to the excess of our funded debt secured by liens on our inventory as of November 3, 2018 over the borrowing base. If we fail to make such repurchase or repayment, we would be in violation of our covenants under our Second Lien Credit Agreement and the indenture relating to our New Senior Secured Notes.

Our outstanding borrowings at August 4, 2018, July 29, 2017 and February 3, 2018 were as follows:

millions	August 4, 2018	July 29, 2017	February 3, 2018
Short-term borrowings:			
Secured borrowings	$ 660	$ 216	$ 271
Line of credit loans	570	330	500
Incremental loans	—	—	144
Secured loan	24	—	—
Long-term debt, including current portion:			
Notes and debentures outstanding	3,639	3,360	3,145
Capitalized lease obligations	61	97	72
Total borrowings	$ 4,954	$ 4,003	$ 4,132

We fund our peak sales season working capital needs through our domestic revolving credit facility and commercial paper markets and secured short-term debt.

	13 Weeks Ended		26 Weeks Ended	
millions	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Secured borrowings:				
Maximum daily amount outstanding during the period	$ 937	$ 629	$ 937	$ 629
Average amount outstanding during the period	703	524	600	366
Amount outstanding at period-end	660	216	660	216
Weighted average interest rate	6.9%	6.0%	6.8%	6.0%
Unsecured commercial paper:				
Maximum daily amount outstanding during the period	$ 31	$ 160	$ 50	$ 160
Average amount outstanding during the period	3	56	9	39
Amount outstanding at period-end	—	—	—	—
Weighted average interest rate	12.8%	8.3%	12.3%	8.2%
Line of credit loans:				
Maximum daily amount outstanding during the period	$ 570	$ 330	$ 570	$ 330
Average amount outstanding during the period	557	54	558	27
Amount outstanding at period-end	570	330	570	330
Weighted average interest rate	11.4%	9.0%	11.2%	9.0%

See the following sections in Note 2 of Notes to Condensed Consolidated Financial for information about our domestic revolving credit facility and commercial paper markets and secured short-term debt: "Domestic Credit Agreement" (which includes a discussion of our Term Loan and 2016 Term Loan), "Letter of Credit Facility," "Consolidated Secured Loan Facility," "2017 Secured Loan Facility," "2016 Secured Loan Facility," "Second Lien Credit Agreement," "Old Senior Secured Notes and New Senior Secured Notes," "Old Senior Unsecured Notes and New Senior Unsecured Notes," and "Wholly-owned Insurance Subsidiary and Intercompany Securities."

Intangible Asset Impairment Assessment

We continue to monitor our performance and further indefinite-lived intangible impairment charges may be recognized in future periods to the extent changes in factors or circumstances occur, including deterioration in the macroeconomic environment, retail industry, deterioration in our performance or our future projections, if actual results are not consistent with our estimates and assumptions used in our impairment assessments, or changes in our plans for one or more indefinite-lived intangible assets, including changes that occur as a result of the formal process of the Special Committee to explore the sale of the Sale Assets, such as if the Special Committee were to accept an offer for the acquisition of the Kenmore trade name at a price less than its carrying value. Further, our business is seasonal in nature, and we generate a higher portion of our revenues and operating cash flows during the fourth quarter of our fiscal year, which includes the holiday season. The intangible asset impairment analysis is particularly sensitive to changes in the projected revenue growth rate and the assumed weighted-average cost of capital. Changes to these key assumptions could result in revisions of management's estimates of the fair value of the indefinite-lived intangible assets and could result in impairment charges in the future, which could be material to our results of operations.

Recent Accounting Pronouncements

See Part I, Item 1, "Financial Statements – Notes to Condensed Consolidated Financial Statements," Note 10 – "Recent Accounting Pronouncements," for information regarding new accounting pronouncements.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements made in this Quarterly Report on Form 10-Q and in other public announcements by us contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements include information concerning our future financial performance and liquidity, business strategy, plans, goals and objectives. Statements preceded or followed by, or that otherwise include, the words "believes," "expects," "anticipates," "intends," "estimates," "plans," "forecast," "is likely to" and similar expressions or future or conditional verbs such as "will," "may" and "could" are generally forward-looking in nature and not historical facts. Such statements are based upon the current beliefs and expectations of the Company's management and are subject to significant risks and uncertainties, many of which are beyond the Company's control, which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Actual results may differ materially from those set forth in the forward-looking statements.

The following factors, among others, could cause actual results to differ from those set forth in the forward-looking statements: our ability to effectively and timely execute financing and asset sale transactions and other actions to enhance our financial flexibility and liquidity to successfully fund our transformation; changes in market conditions and our credit rating, which may continue to limit our access to capital markets and other financing sources and materially increase our borrowing costs; our ability to achieve cost savings initiatives; vendors' lack of willingness to do business with us or to provide acceptable payment terms or otherwise restricting financing to purchase inventory or services; our ability to effectively compete in a highly competitive retail industry; our ability of offer merchandise and services that our member and customers want; our ability to successfully implement our integrated retail strategy to transform our business into a member-centric retailer; our ability to successfully manage our inventory levels; initiatives to improve our liquidity through inventory management and other actions; the process being overseen by the Special Committee to explore the sale of the Sale Assets, including the result of any required vote of a majority of the disinterested stockholders of Holdings; the effect of worldwide economic conditions, an economic downturn, a renewed decline in customers' spending patterns, inflation and changing prices of energy; our failure to execute effective advertising efforts; the negative impact as a result of the recapture rights included in the Master Leases in connection with the Seritage transaction and the JV transactions; potential liabilities in connection with the separation of Sears Hometown and Outlet Stores and Lands' End or other asset transactions which may arise under fraudulent conveyance and transfer laws and legal capital requirements; the review and challenge of certain dividend payments received by us from Sears Canada, Inc. and other transactions involving Sears Canada, Inc.; disruptions to our computer systems which are used to implement our integrated retail strategy, process transactions, summarize results and otherwise manage our business; our ability to maintain the security of our members and customers, associate or company information; payment-related risks that could increase our operating costs, expose us to fraud or theft, subject us to potential liability and potentially disrupt our business operations; the impact of the seasonality of our business and customers spending patterns on the annual operating results; our dependence on sources outside the United States for significant amounts of our merchandise, which may be impacted by changes in U.S. and international trade regulations, including new or increased duties, tariffs, retaliatory tariffs, trade limitations and termination or renegotiation of the North American Free Trade Agreement; our reliance on third parties to provide us with services in connection with the administration of certain aspects of our business; impairment charges for goodwill and intangible assets or fixed-asset impairment for long-lived assets; our ability to attract, motivate and retain key executives and other associates; the substantial influence exerted over the Company by affiliates of our Chairman and Chief Executive Officer, whose interests may diverge from other stockholders' interests; our ability to protect or preserve the image of our brands and our intellectual property rights; the effect of product safety concerns or claims concerning the services we offer; the outcome of pending and/or future legal proceedings, including shareholder litigation, changes in laws and government regulations, product liability, patent infringement and qui tam claims and proceedings with respect to which the parties have reached a preliminary settlement; the timing, amount and other risks related to the pension and postretirement benefit plan obligations; our failure to realize the anticipated benefits of the Craftsman sale; our failure to comply with federal, state, local and international laws; consumer spending impacted by weather conditions and natural disasters; the volatility of our stock price; and increases in employee wages and the cost of employee benefits.

Certain of these and other factors are discussed in more detail in our Annual Report on Form 10-K for the fiscal year ended February 3, 2018 and in our other filings with the Securities and Exchange Commission, which may be accessed through the Commission's website at www.sec.gov.

While we believe that our forecasts and assumptions are reasonable, we caution that actual results may differ materially. We intend the forward-looking statements to speak only as of the time made and do not undertake to update or revise them as more information becomes available, except as required by law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We face market risk exposure in the form of interest rate risk. This market risk arises from our debt obligations.

Interest Rate Risk

We manage interest rate risk through the use of fixed and variable-rate funding. All debt securities are considered non-trading. At August 4, 2018, 67% of our debt portfolio was variable rate. Based on the size of this variable rate debt portfolio at August 4, 2018, which totaled approximately $3.3 billion, an immediate 100 basis point change in interest rates would have affected annual pretax funding costs by $33 million. These estimates do not take into account the effect on income resulting from invested cash or the returns on assets being funded. These estimates also assume that the variable rate funding portfolio remains constant for an annual period and that the interest rate change occurs at the beginning of the period.

Item 4. Controls and Procedures

Our management, with the participation of our principal executive and financial officers, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report (the "Evaluation Date"). Based on this evaluation, the principal executive and financial officers concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

In addition, based on that evaluation, no changes in our internal control over financial reporting have occurred during our last quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Part I, Item 1, "Financial Statements—Notes to Condensed Consolidated Financial Statements," Note 9—"Legal Proceedings," for additional information regarding legal proceedings, which information is incorporated herein by this reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about shares of common stock we acquired during the second quarter of 2018. During the 13-week period ended August 4, 2018, we did not repurchase any shares of our common stock under our common share repurchase program. At August 4, 2018, we had approximately $504 million of remaining authorization under the program.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program(1)	Average Price Paid per Share for Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
May 6, 2018 to June 2, 2018	1,161	$ 2.28	—	$ —	
June 3, 2018 to July 7, 2018	—	—	—	—	
July 8, 2018 to August 4, 2018	—	—	—	—	
Total	1,161	$ 2.28	—	$ —	$ 503,907,832

(1) Our common share repurchase program was initially announced on September 14, 2005 and has a total authorization since inception of the program of $6.5 billion, including the authorizations to purchase up to an additional $500 million of common stock on each of December 17, 2009 and May 2, 2011. The program has no stated expiration date.

The Amended Domestic Credit Agreement limits our ability to make restricted payments, including dividends and share repurchases, subject to specified exceptions that are available if, in each case, no event of default under the credit facility exists immediately before or after giving effect to the restricted payment. These include exceptions that require that projected availability under the credit facility, as defined, is at least 15%, exceptions that may be subject to certain maximum amounts and an exception that requires that the restricted payment is funded from cash on hand and not from borrowings under the credit facility. Further, the Amended Domestic Credit Agreement includes customary covenants that restrict our ability to make dispositions, prepay debt and make investments, subject, in each case, to various exceptions. The Amended Domestic Credit Agreement also imposes various other requirements, which take effect if availability falls below designated thresholds, including a cash dominion requirement and a requirement that the fixed charge ratio at the last day of any quarter be not less than 1.0 to 1.0.

Item 6. Exhibits

Certain of the agreements filed with or incorporated by reference into this report contain representations and warranties and other agreements and undertakings by us and third parties. These representations and warranties, agreements and undertakings have been made as of specific dates, may be subject to important qualifications and limitations agreed to by the parties to the agreement in connection with negotiating the terms of the agreement, and have been included in the agreement for the purpose of allocating risk between the parties to the agreement rather than to establish matters as facts. Any such representations and warranties, agreements, and undertakings have been made solely for the benefit of the parties to the agreement and should not be relied upon by any other person.

(b) Exhibits

SEARS HOLDINGS CORPORATION
EXHIBIT INDEX

3.1	Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K, dated March 24, 2005, filed on March 24, 2005 (File No. 000-51217)).
3.2	Second Amended and Restated By-Laws (incorporated by reference to Exhibit 3.2 to Registrant's Current Report on Form 8-K, dated May 8, 2018, filed on May 10, 2018 (File No. 001-36693)).
10.1	Third Amended and Restated Loan Agreement, dated as of June 4, 2018, among Sears Roebuck and Co., Kmart Stores of Illinois LLC, Kmart of Washington LLC, Kmart Corporation, SHC Desert Springs, LLC, Innovel Solutions, Inc., Sears Holdings Management Corporation, Maxserv, Inc., Troy Coolidge No. 13, LLC, Sears Development Co. and Big Beaver of Florida Development, LLC, collectively as borrower, and JPP, LLC and JPP II, LLC, collectively as initial lender (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated June 4, 2018, filed on June 4, 2018 (File No. 001-36693)).
10.2	Second Amendment to Credit Agreement, dated as of June 29, 2018, among SRC O.P. LLC, SRC Facilities LLC and SRC Real Estate (TX), LLC, as the borrowers, the lenders party thereto and UBS AG, Stamford Branch, as administrative agent (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated June 29, 2018, filed on July 6, 2018 (File No. 001-36693)).
10.3	Fifth Amendment to Mezzanine Loan Agreement, dated as of June 29, 2018, between SRC Sparrow 2 LLC, as borrower, and JPP, LLC, as administrative agent (incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K, dated June 29, 2018, filed on July 6, 2018 (File No. 001-36693)).
10.4	Fifth Amendment to Second Lien Credit Agreement, dated as of July 5, 2018, among Sears Holdings Corporation, Sears Roebuck Acceptance Corp. and Kmart Corporation, as borrowers, the subsidiaries of Sears Holdings Corporation party thereto, the lenders party thereto, and JPP, LLC, as administrative agent and collateral administrator (incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K, dated June 29, 2018, filed on July 6, 2018 (File No. 001-36693)).
*10.5	Clarification and Correction to Sixth Amendment to Third Amended and Restated Credit Agreement, dated as of June 4, 2018, among Sears Holdings Corporation, Sears Roebuck Acceptance Corp. and Kmart Corporation, as borrowers, the lenders party thereto, Bank of America, N.A., as administrative agent, and the other parties thereto.
*10.6	Schedules, Exhibits and Amendments to the Amended and Restated Program Agreement, dated as of July 15, 2003, amended and restated as of November 3, 2003, by and among Sears, Roebuck and Co., Sears Brands Business Unit Corporation (as successor in interest to Sears Intellectual Property Management Company) and Citibank, N.A. (as successor in interest to Citibank (South Dakota), N.A., which was successor in interest to Citibank (USA, N.A.)) (1)
*10.7	Sixth Amendment to Mezzanine Loan Agreement, dated as of July 25, 2018, between SRC Sparrow 2 LLC, as borrower, and JPP, LLC, as administrative agent.
10.8	Amendment to Transaction Documents, dated as of August 30, 2018, by and among Sears Holdings Corporation, certain of its subsidiaries and Pension Benefit Guaranty Corporation (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, dated August 30, 2018, filed on September 4, 2018 (File No. 001-36693)).
10.9	Third Amendment to Credit Agreement, dated as of August 31, 2018, among SRC O.P. LLC, SRC Facilities LLC and SRC Real Estate (TX), LLC, as the borrowers, the lenders party thereto and UBS AG, Stamford Branch, as administrative agent (incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K, dated August 30, 2018, filed on September 4, 2018 (File No. 001-36693)).
*31.1	Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

SEARS HOLDINGS CORPORATION
EXHIBIT INDEX

*32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from the Quarterly Report on Form 10-Q for the fiscal quarter ended August 4, 2018, formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) the Condensed Consolidated Statements of Operations (Unaudited) for the 13 and 26 weeks ended August 4, 2018 and July 29, 2017; (ii) the Condensed Consolidated Statements of Comprehensive Loss (Unaudited) for the 13 and 26 weeks ended August 4, 2018 and July 29, 2017; (iii) the Condensed Consolidated Balance Sheets (Unaudited) as of August 4, 2018, July 29, 2017 and February 3, 2018; (iv) the Condensed Consolidated Statements of Cash Flows (Unaudited) for the 26 weeks ended August 4, 2018 and July 29, 2017; (v) the Condensed Consolidated Statements of Deficit (Unaudited) for the 26 weeks ended August 4, 2018 and July 29, 2017; and (vi) the Notes to the Condensed Consolidated Financial Statements (Unaudited).

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* Filed herewith

(1) Confidential treatment was requested as to omitted portions of this Exhibit. The omitted material has been filed separately with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SEARS HOLDINGS CORPORATION

Date: September 13, 2018	By:	/s/ ROBERT A. RIECKER
	Name:	**Robert A. Riecker**
	Title:	**Chief Financial Officer***

*Mr. Riecker is signing this report both as a duly authorized officer and as the principal accounting officer.

Transcript of August 23, 2019

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK
Case No. 18-23538-rdd
- x
In the Matter of:

SEARS HOLDINGS CORPORATION, et al.,

Debtors.
- x

United States Bankruptcy Court
300 Quarropas Street, Room 248
White Plains, NY 10601

August 23, 2019
10:16 AM

B E F O R E :
HON ROBERT D. DRAIN
U.S. BANKRUPTCY JUDGE

ECRO: NAROTAM RAI

HEARING re Continuance from 8/22/2019 and Evidentiary Hearing on MOAC Mall Holding LLCs Objections

MOAC Mall Holding LLC's Objection to Supplemental Notice of Cure Costs and Potential Assumption and Assignment of Executory Contracts and Unexpired Leases in Connection with Global Sale Transaction (document #2199)

MOAC Mall Holding LLC's Second Supplemental and Amended: (I) Objections to Debtor's Notice of Assumption and Assignment of Additional Designatable Leases, and (II) Objection to Debtor's Stated Cure Amount (document #3501)

MOAC Mall Holding LLC's Third Supplemental and Amended: (I) Objections to Debtor's Notice of Assumption and Assignment of Additional Designatable Leases (document #3926)

MOAC Mall Holding LLC's Fourth Supplemental (I) Objections to Reply to Debtor's Notice of Assumption and Assignment of Additional Designatable Leases, and (II) Objection to Debtor's Stated Cure Amount (document #4450)

Transform Holdco LLC's Reply to MOAC Mall Holdings LLC's (I) Objection to Supplemental Notice of Cure Costs and Potential Assumption and Assignment of Executory Contracts and Unexpired Leases in Connection with Global Sale Transaction; (II) Second Supplemental and Amended: (A) Objections to Debtor's Notice of Assumption and Assignment of Additional Designatable Leases, and (B) Objection to Debtor's Stated Cure Amount; and (III) Third Supplemental and Amended Objections to Debtor's Notice of Assumption and Assignment of Additional Designatable Leases (document #4454)

So Ordered Stipulation Signed on 5/13/2019 By and Among Sellers, Buyer, and Landlord (MOAC Mall Holding LLC) (I) Extending Time Under Section 11 U.S.C. Section 365(d)(4) for Lease of Nonresidential Real Property and (II) Setting Briefing Schedule (document #3823)

Declaration of Rich Hoge Supporting MOAC Mall Holdings LLC's Third Supplemental and Amended Objections to Debtor's Notice of Assumption and Assignment of Additional Designatable Leases (document #3927)

Stipulation and Order signed on 6/25/2019 By and Among Sellers, Buyer, and MOAC Mall Holding LLC Extending Time Under 11 U.S.C. § 365(d)(4) For Lease of Nonresidential Real

Property(document #4354, 4687)

Declaration of Thomas J. Flynn in Support of 4450 Fourth Supplemental Objection (document #4451)

Stipulation of Agreed Exhibits Regarding Assumption and Assignment of the MOAC Lease Filed by Thomas J. Flynn (document #4864)

Stipulation of Facts Not in Dispute Regarding Assumption and Assignment of the MOAC Lease Filed by Thomas J. Flynn (document #4865)

Transform Holdco LLCs Supplemental Reply and Cross-Motion to; (A) Strike MOAC Mall Holdings LLCs Fourth Supplemental (I) Objections and Reply to Debtors Notice of Assumption and Assignment of Additional Designatable Leases, and (II) Objection to Debtors Stated Cure Amount; and (B) Permit Late Filed Responses to Requests for Admission (document #4867)

Declaration of Louis W. Frillman in Opposition to the Proposed Assumption and Assignment of the MOAC Lease (document #4874)

Declaration of Raphael Ghermezian in Opposition to the Proposed Assumption and Assignment of the MOAC Lease filed by Thomas J. Flynn (document #4875)

Declaration of Richard Hoge in Opposition to the Proposed Assumption and Assignment of the MOAC Lease filed by Thomas J. Flyrui (document #4876)

Declaration - Evidentiary Hearing Declaration of Roger A. Puerto In Support of Transform Holdco LLCs Reply to MOAC Mall Holdings LLCs (I) Objection to Supplemental Notice of Cure Costs and Potential Assumption and Assignment of Executory Contracts and Unexpired Leases in Connection with Global Sale Transaction; (II) Second Supplemental and Amended: (A) Objections to Debtors Notice of Assumption and Assignment of Additional Designatable Leases, and (B) Objection to Debtors Stated Cure Amount; and (III) Third Supplemental and Amended Objections to Debtors Notice of Assumption and Assignment of Additional Designatable Leases (document #4879)

Declaration - Evidentiary Hearing Declaration of Michael Jerbich In Support of Transform Holdco LLCs Reply to MOAC Mall Holdings LLCs (I) Objection to Supplemental Notice of Cure Costs and Potential Assumption and Assignment of Executory Contracts and Unexpired Leases in Connection with Global Sale Transaction; (II) Second Supplemental and Amended: (A) Objections to Debtors Notice of Assumption and Assignment of Additional Designatable Leases, and (B) Objection to Debtors Stated Cure Amount; and (III) Third Supplemental and Amended Objections to Debtors Notice of Assumption and Assignment of Additional Designatable Leases (document #4880)

Opposition Brief MOAC Mall Holdings LLC's Pre-Evidentiary Hearing Brief Regarding the Proposed Assumption and Assignment of the MOAC Lease filed by Thomas J. Flynn (document #4889)

Transform Holdco LLC's Amended Supplemental Reply and Cross-Motion to Strike MOAC Mall Holding LLC's Pre-Evidentiary Hearing Brief Regarding The Proposed Assumption and Assignment of the MOAC Lease (document #4903)

MOAC Mall Holdings LLC's Reply Objecting to Transform Holdco LLC's Motion to (A) Strike MOAC's July 8 Supplemental Objection and (B) Permit Late Responses to Requests for Admissions (document #4915)

Transcribed by: Sonya Ledanski Hyde

A P P E A R A N C E S :

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WITNESSES:
MICHAEL JERBICH
RAPHAEL GHERMEZIAN
LOUIS FRILLMAN
ROGER PUERTO

ALSO PRESENT TELEPHONICALLY:

ALIX BROZMAN
TAYLOR B. HARRISON
WILLIAM S. HOLSTE
HOC RI KIM
TERESA LII
SHIRIN MAHKAMOVA
CHRIS STAUBLE

P R O C E E D I N G S

THE COURT: Okay, good morning. In re Sears Holdings Corp et al?

MR. CHESLEY: Your Honor, Richard Chesley, Rachel Albanese, Craig Martin, and Alana Friedberg on behalf of Transform. We’re here on the only matter today, which is the Mall of America assumption and assignment motion. We’ve spoken to Debtors’ counsel in light of the nature of this proceeding, discussed with Debtors’ counsel just moving forward, so. Unless the Court has any procedural issues, our position on this, Your Honor, in terms of how we would like to proceed today, obviously, a substantial amount of information has been presented to the Court. There are stipulated facts that are agreed exhibits. We’ll have five witnesses whose directs have been submitted by declaration.

We believe the issues have been fully formed, and with the Court’s approval, we would like to simply proceed with the evidentiary presentation. At that point, we can address argument or any other matters the Court would like. At that point, we think we could do this much more efficiently and effectively today, and again, I don't think there’s any surprises to the Court as to what the issues are.

THE COURT: Okay. Well, I normally do not take opening arguments, so my normal practice would be to do just

that, move to the evidence. There is, in the record, fairly recently submitted, a pair of pleadings in which the parties are jousting over the effect of Transform's responding to the request to admit only on July 26th and the application of Rule 36 incorporated by 7036 of the Bankruptcy Rules. To that fact, as well as Transform's motion to strike the fourth supplemental objection and pre-hearing memorandum of law submitted by Mall of America Corp, or MOAC, I have the parties' pleadings on those matters. I can consider them now or later.

MR. CHESLEY: Your Honor, we think, in light of the evidence that's already been presented and will be presented, we think those could be addressed at the end if that would be acceptable to the Court.

THE COURT: Okay. I don't know who's speaking for MOAC.

MR. FLYNN: Right. Good morning, Your Honor. My name is Tom Flynn. I'm representing the lender, MOAC.

THE COURT: Okay.

MR. FLYNN: I'm here with Alex Beeby and David Dykhouse. We would be curious to know the answer to the question on the admissions that were (indiscernible) on the hearing today, but whatever the Court desires on that (indiscernible).

THE COURT: Okay, well, I understand that

curiosity because, obviously, if the Debtor has deigned to admit certain things that may short the evidentiary presentation, it’s complicated somewhat by the fact that the parties have stipulated facts, which, in many ways, go to the admissions anyway. But I guess the short answer is that, in keeping with the terms of Rule 7036, I believe I can permit the amendment even after the fact, or retroactively, to extend the time to respond.

That standard is not subject to the excusable neglect Pioneer standard that is incorporated in other extensions of time. It still has to be for cause, although that requires a balancing of some basis for why it wasn’t submitted timely, i.e., if it was intentionally not submitted timely, to thwart discovery or create a false impression in the opponent’s mind as to what was at issue in the case. Or, as relatedly, the movant, under Rule 36, while seeking to enforce that rule, was in the Court to be truly prejudiced in presenting its case by the delay. I obviously would not grant such retroactive extension, or such a retroactive extension.

But I don’t believe those types of facts pertain here. It appears to be that the delay was inadvertent, not part of a strategy, that the parties were actively engaged throughout the process, and most importantly, I don't believe that MOAC was unduly prejudiced by the delay. Most

of the admissions that are sought are actually agreed to, at this point. A couple of them were confusing to me, and would be hard to decide what they meant in the first place. I think the two that may or may not be at issue, although, frankly, the stipulated facts may reflect this too, and it's really more of a legal interpretation as to what 365(b)3 provides when it seeks a comparison between financial operating condition at the time the lease was entered into and the present time, would be Request Nos. 5 and 6, where there's: "An admission of the financial condition of the assignee is not similar to or better than the financial condition of Sears owner about May 30, 1991." And Request No. 6: "Admit that the operating performance of the assignee is not similar to or better than the operating performance of Sears owner about May 30, 1991."

At one level, I think that, based on one reading of the relevant provision of § 365(b)3, I believe the facts establish that, but based on another reading, which Transform has always made clear is its interpretation, it wouldn't be deemed admitted. So, in any event, this doesn't appear to be the type of factual issue properly covered by a request to admit in any event. As I said, almost all of the other requests to admit I think are pretty well established already by the stipulated facts or not raised as a factual issue. For example, Request No. 9" "Admit that you do not

currently plan for Transform Lease Co., LLC. to operate as a retail distributor." There are a number like that.

The ones that I question, again, as to whether they're factual, since they contain terms that are really more aptly construed as a matter of law would be Request No. 13, and the last two, 14 and 15, which I think go to issues that really are not at issue in the matter, which go to those -- just to remind you all: "Admit that assumption and assignment of the lease is not necessary to support Transform's retail operations for Transform to maintain its financial condition."

And then Request No. 15 says: "Admit that Transform's retail operation are not sufficient to maintain Transform's financial condition, which is dependent upon assumption and assignment of the lease." I'm not really sure what that -- those actually are asking for, but in any event, I don't think they're -- I can't imagine a timely response to -- I don't even know what -- I'll go back. I don't know what it would mean to deem those be admitted. So, I'm going to grant Transform's request to extend, retroactively, the time for it to have responded to the requests for admission.

As far as Transform's request that the fourth supplemental objection and the pre-hearing memorandum be stricken, the pre-hearing memorandum is just that. It's a

memorandum. It really doesn't raise any new issues. It cites cases that have already been cited and that I could have looked up anyway, if they had not previously been cited. So, that's not stricken, for what it's worth. It's another issue as to whether that's part of the cure, as it really was not contemplated by the case management order, but I won't keep it out of the record.

As far as the fourth supplemental objection is concerned, I don't believe it raises any particularly surprising issues for Transform. It didn't move the playing field. I think it just elaborated on the grounds for MOAC's objection to assumption and assignment to Transform. If I'm missing something there, Mr. Chesley, you can tell me, but it just seems to me that, again, it's adding detail to arguments that have previously been made, as opposed to, for example, what counsel tried to do yesterday in another assumption and assignment objection is, during oral argument, raise a wholly new basis for objecting to the assignment.

MR. CHESLEY: Your Honor, I don't think there's anything new in there as to the fourth. It really related to the issues of the request to admit, so we're ready to proceed.

THE COURT: Okay. All right, so, that's my ruling on those two motions.

MR. CHESLEY: Thank you, Your Honor. Unless the Court has anything further, any questions for us, we would move to our first witness.

THE COURT: All right, that's fine.

MR. CHESLEY: Transform's first witness would be Michael Jerbich. And Your Honor, for ease of the witnesses, we put the exhibit binder as well as each of their declarations on the witness stand.

THE COURT: Okay.

MR. CHESLEY: And Ms. Albanese will address Mr. Jerbich's testimony.

THE COURT: Okay. Would you raise your right hand, please?

MR. JERBICH: Yeah, sure.

THE COURT: Do you swear or affirm to tell the truth, the whole truth, and nothing but the truth, so help you God?

MR. JERBICH: I do.

THE COURT: And could you spell your name for the record, please?

MR. JERBICH: Michael, M-I-C-H-A-E-L, Jerbich, J as in jam, E-R-B as in boy, I-C-H.

THE COURT: Okay. Good morning. Mr. Jerbich, you submitted a declaration in this case, in this proceeding in connection with the assumption and assignment of the Mall of

America lease dated August 18th, 2019. It's intended to be your direct testimony in this matter. Sitting here today, would this still constitute your direct testimony?

MR. JERBICH: Yes, it would.

THE COURT: And there's nothing that you would change in it?

MR. JERBICH: No, there is not.

THE COURT: Okay. All right, so, Mr. Flynn, you can proceed with cross.

MR. FLYNN: Thank you, Your Honor.

CROSS-EXAMINATION OF MICHAEL JERBICH

BY MR. FLYNN:

Q Mr. Jerbich, my name's Tom Flynn. I think we've met before once already.

A Correct.

Q I'll be referring to my client as either the Mall of America, MOAC, or the landlord. Is that okay?

A Sure.

Q They mean basically the same thing. I understand that you submitted a declaration here today and you think that that declaration primarily relying on the Reicher declaration, provides substantial financial information regarding the ability of Transform HoldCo to meet its financial obligations for the proposed and assumed leases, is that right?

A I'm not sure I understand what you're asking there.
Q Well, in Paragraph 6 of your declaration --
A Okay.
Q -- if you remember that.
A I just didn't hear what the question was.
Q For financial information concerning adequate assurance of future performance, you're relying primarily on the Reicher declaration. Is that correct?
A Correct.
Q Have you read the Reicher declaration and it's attachments and exhibits?
A I have.
Q Is there any other -- there is no other financial information in your declaration referred to that would support adequate assurance of future performance, is that correct?
A No other testimony regarding adequate assurance?
Q No financial information, other than that contained in the Reicher declaration.
A There's no other financial information, no.
Q Have you reviewed the exhibits to the Reicher declaration? That would be the balance sheet and the other exhibits, have you done that?
A I've seen them, yes.
Q Are you relying on that information?

A For the adequate assurance?
Q Yes.
A In part.
Q Is there any other financial information that you referred to in your declaration that you --
A There's nothing else referred to in my declaration, no.
Q Just a minute. Now, in the Reicher declaration, you're familiar with the fact -- did you read the whole declaration including what was filed in the Court by Mr. Reicher?
A I've reviewed it. I would imagine I've read the whole thing. Do you know which area this is? Is there something specific you're going to ask about that, so I can find it in here?
Q Yes. I just wonder if you've read it.
A I've read it.
Q In that declaration, Mr. Reicher states that the failure -- he talks about selected number of leases that you would like to -- that your company would like to assume and assign. Is that correct?
A Yeah, I think we've assumed, now 656 out of 660, yes.
Q Did you put anything in your declaration about that?
A Somewhere in there. It said 660 leases.
Q And they've been assumed and assigned? Where did it say that in the declaration?
THE COURT: I'm sorry, Mr. Flynn. When you say

assumed and assigned, you mean assumed by the Sears Debtors and assigned to Transform or to be assigned by Transform to someone else?

MR. FLYNN: To be assigned by Transform to someone else. Thank you, Your Honor.

A Oh, I misunderstood that, I apologize. What's the question?

Q Did you put any information about what's been assumed and assigned by Transform to someone else in your declaration?

A To someone else, I don't believe the declaration -- I'd have to look at it closely. I know there's a section of the declaration that talks about how many leases we were assuming.

Q In the declaration, Mr. Reicher states, if you remember --

A Oh, I thought you were asking my declaration. I apologize.

Q Well, I'm talking about what you're relying on for adequate assurance and in the Reicher declaration, the failure to assume and assign these leases, according to him, would be the end of Sears. Did you know that he said that? Do you remember that he said that?

A I don't recall that exact phrase but if it's in the declaration, I'm sure it's in the declaration.

Q Has Transform assumed and assigned all of the leases, do you have anything about that in the declaration, in your declaration?
A May I view the copy of my declaration just to review? There was a section in there regarding assuming the leases.
THE COURT: Do you want to show him his declaration?
A I just don’t have it in front -- I can grab it, if you like. I don't know --
Q I have a marked up copy here that --
MR. CHESLEY: The small binder.
MR. JERBICH: Oh, it is the small binder. I apologize.
MR. FLYNN: It’s in the small binder.
MS. ALBANESE: They’re alphabetical, number is one.
MR. JERBICH: Okay, thank you.
A I recall a reference in my declaration about the 660 leases.
MR. CHESLEY: Your Honor, can I just point the witness to Paragraph 4? I don't think we need to -- I’m sorry, Paragraph 5.
MR. JERBICH: Right, okay.
A (indiscernible) “sought to assume and assign approximately 660 retail and non-retail leases to

Transform."

Q It doesn't say anything about what -- how many have been successfully assumed or assigned, does it?

A This does not say that.

Q Yes.

A But I thought I was aware that there were only three now that aren't.

Q Do you have any evidence to support that, besides your word here today?

A I don't have a document to support that, if that's what you're asking. I just --

Q So there's no exhibit and there's nothing in your testimony --

THE COURT: I'm sorry, again.

MR. FLYNN: Excuse me.

THE COURT: When you say, "assumed and assigned" --

MR. FLYNN: Right.

THE COURT: -- you mean by the Debtors to Transform or by Transform to someone else?

MR. FLYNN: By Transform to someone else?

THE COURT: All right, because there's -- I mean, the docket of the case reflects the number of leases that have been assigned by the Debtors to Transform.

MR. FLYNN: Yeah, it's Transform to someone else.

A And that's what I was referring to.
Q And there's still assignments to be done? Is that right?
A From Transform to third parties?
Q Yes.
A Potentially.
Q Including this one, here today, right?
A No. This could be subleased. I don't think this needs to be assigned.
Q You're seeking assume --
A We're seeking assume -- maybe I'm not understanding the legal distinction, so if you can -- we're seeking to assume this lease, for the Debtor to assume it and assign it to Transform.
Q Right.
A Right.
Q So, there's leases that haven't been assumed and assigned, is that correct?
A I believe three.
Q In any case, you don't know for sure, and you have no documents or evidence to support that?
A Well, I think -- I mean, I guess we can scour the docket, but I thought there were only -- I thought there were only three that were not thus far assumed by Sears and assigned to Transform.

Q And how many are assigned -- how many of the -- there's only three and you didn't testify to that in your --

MS. ALBANESE: Objection, Your Honor. I think Mr. Flynn is conflating the assumption by Sears and assignment to Transform with Transform's subsequent assignment of those leases and confusing the witness.

MR. FLYNN: All right.

Q At any rate, have you reviewed the balance sheet contained in the Reicher declaration? Did you review that?

A I'm not an accountant. I have reviewed it, but I'm not a --

Q You've testified, did you not, that that information is sufficient to give the Mall of America assurance -- the required assurances of future performance. That information was sufficient. You testified to that, didn't you?

A I did. I have.

Q And if you're not an accountant --

A I'm not an accountant.

Q -- and you have no particular skill or ability to review that or understand it, (indiscernible) it, is that what you're saying?

A That's not at all what I'm saying. I don't think I said I have no particular --

Q Did you review it?

A I did review it, yes.

Q Okay, and you're not an accountant. Did you prepare or help prepare those accounting statements?
A I did not.
MR. FLYNN: Excuse me, Your Honor.
Q I'd like you to take a look at MOAC Exhibit 12.
A I have it in front of me.
Q Would you turn to the balance sheet, which is, I believe, the -- I don't believe there is a balance sheet on Exhibit 12, is there? I think there is.
THE COURT: Well, it's about four pages in. We refer to the draft, Consolidated HoldCo, Transform Consolidated HoldCo balance sheet?
MR. FLYNN: Yes. Yes.
THE COURT: It's right before the organizational chart.
A Page MOAC 00008.
Q Okay. Thank you.
A Okay.
Q You're relying on that, in part, for your assurance of adequate performance in the future?
A In part.
Q And do you have any other financial information, either referred to in your testimony as far as --
A I don't think there was any other financial information referred to in my testimony, other than the fact that the

REA only requires, a subtenant of ours, a $50 million dollars net worth.

Q That's not financial information, that's --

A Okay.

Q So, this is the exclusive financial information you're relying on? This attachments to the Reicher declaration in Exhibit --

A Yes.

Q The balance sheet is not -- has not been, according to what -- and this is what you're relying on -- it hasn't been completed. You understand that? Did you read that?

A Where are you referring to when you asked me to read that?

Q Well, let's start with the top line. It says "draft".

A Correct. It does say "draft".

Q What does "draft" mean to you? That's the final document that -- or does that mean somebody has done a draft?

A "Draft" to me means draft, yeah.

Q So, this isn't the final. This is an initial, or draft. This has not been completed. Is that the way you read it?

A I read it -- I think the document speaks for itself.

Q Yeah, I do too. So, could a reasonable person read that and say, well, this isn't anything final. This is

simply an initial draft.

MS. ALBANESE: Objection, Your Honor.

THE COURT: Sorry?

MS. ALBANESE: Objection, Your Honor. I think the witness has answered the question and he's badgering him.

THE COURT: That's fair. Well, I don't know if he's badgering, but it's redundant, at this point.

Q Did you read the footnotes to the balance sheet, sir? Did you?

A Yes.

Q Does that indicate that the numbers could change?

A It says it's subject to change.

Q All right, it says it's subject to change? Okay. Did your testimony indicate that you -- did you ever get a final draft? You never did, did you? Of this balance sheet, did you?

A I don't believe I've gotten a document beyond what I have here.

Q The footnotes say, in part, "Please note this draft is based upon schedules," okay? "And may be adjusted." Is that right?

A It does say, "Please note this draft is based upon schedules of APA," yes.

Q And is subject to change?

THE COURT: He already answered that one.

Q Is this something that you're claiming we can rely upon as adequate assurance of future performance? Is that your testimony here today? That we can look at this and rely upon this?

A I think 650-some odd other landlords have, yes.

Q What -- what --

MR. FLYNN: I ask that to be stricken.

THE COURT: No, I won't strike that.

MR. FLYNN: All right.

Q We'll get to that in a minute, but so, we're supposed to -- the Mall of America is supposed to be assured when it doesn't have a final balance sheet that's subject to change? That's supposed to assure us? Are you serious about that?

A Well, in addition to the security that we offered you, yes.

Q So, just a minute, here. I'd like you to refer to that part of the exhibit that talks about adequate assurance information, marked as MOA007, okay? Do you have that in front of you?

A I have the binder open to MOAC-7, yes.

Q What does that purport to show?

A It's a Form 10-k.

Q It shows -- I'm talking -- or it's talking about the same thing, this --

A Oh, no, I apologize. I'm -- what page are you

referring to, then?

Q It's 007.

THE COURT: It's the same exhibit --

MR. JERBICH: Oh, the same exhibit. I turned to (indiscernible).

THE COURT: Right, not Exhibit 7. It's the same one that you were in, but just a page before.

MR. JERBICH: All right.

A Okay.

Q By the way, a question about the balance sheet. Has that been -- has the balance sheet been signed by anyone? Is there any indication that's been signed by a CPA or anybody else that would certify to it?

A I'm not certain of that.

Q I'm going back to the balance sheet. Has that been signed by anyone?

A I just answered. I'm not certain of that.

Q Going back to Page 007, you're familiar with this. You're reviewed this, I assume?

A Again, I've looked at all the exhibits.

Q All right, all right. Did you read the disclaimer in that?

A I'm sure in my review I reviewed it at some point.

Q So, on its face, this -- your financial information says that it's unreliable, doesn't it?

A I'd have to read it to see if that's an accurate characterization.
Q You haven't read this before?
A I said I read it, but I'd like to refresh myself.
Q Well, let me help you. Let me read portions of it.
A Please.
Q "This letter includes projections, forecasts, and forward-looking statements which refer to Transform's and can be," quote, "no assurance as to Transform or the company's future performance." That's what it says. Do you see that in there?
A I do see that in there.
Q Are we supposed to be -- well, I'll let that -- it goes on to state that: "This financial interest (indiscernible) speaks only to the relevant date," and they assume, "no obligation to update it." Did you read that portion of the disclaimer?
A Yeah, I believe I mentioned I read all of it. So.
Q We have received no updates, and nor are they promising to give us any, and you don't prepare these things. Is that right?
A There's three questions in, if you want to break it down. You haven't received an update to the question or?
Q I'll ask another question. They also go on to state they "have no duty to advise any person that any of the

conclusions in the letter, and the declaration, have changed," right?

A You're asking whether it says that?

Q Yes.

A I don't see that specific language, but if you point me to it, I'm sure I'll find it.

THE COURT: I can read it.

MR. FLYNN: Thank you.

MR. JERBICH: Thank you.

Q It goes on to state: "This letter," and they're talking about the Reicher declaration, I believe.

A Okay.

Q "and its attachments, is not intended to provide the basis for any decision on any transaction." Did you read that part of it?

A Again, I've read the entire thing.

Q I assume you don't dispute your own document. That's what it means, doesn't it?

A I think this is an exhibit to Mr. Reicher's declaration, not mine.

Q Then you don't endorse Mr. Reicher? You don't think he's --

A I didn't say that at all.

Q You don't endorse your own --

MS. ALBANESE: Objection, Your Honor.

MR. JERBICH: That's silly.

MS. ALBANESE: The witness didn't say that.

THE COURT: Look, I've read it. I get your point.

MR. FLYNN: Thank you.

THE COURT: I've read similar language attached to disclosure statements, 10-ks, et cetera. You can move on.

MR. FLYNN: All right. Well, this was provided to us to give us assurance.

THE COURT: Ultimately, it's my decision, sir. But I get your point.

MR. FLYNN: All right.

MR. JERBICH: Along with a one-year letter of credit.

Q I do want to -- and I'll make this short, one more section. This document, it says: "The recipient should make its own independent basis and legal decisions based upon the information and advice and the recipient's own judgments concerning the adequacy of this disclosure." Isn't that what it says?

A Can you point me to the exact sentence you're referring to?

Q Second from the last.

THE COURT: Actually, the third to the last.

A Yes, it does say that.

Q Does the Mall of America, then, I assume you're telling

us is allowed to make its own decision about the adequacy of this information.

A I think that's probably boilerplate language to a financial statement that talks about forward-looking thoughts and what have you.

Q So, that's just meaningless?

MS. ALBANESE: Your Honor, objection. I think it's --

THE COURT: It's meaningless in the context of my determination as to whether there's adequate assurance of future performance.

MR. FLYNN: Sure.

THE COURT: So, yes. The answer is yes. It's meaningless.

MR. FLYNN: All right. Thank you, Your Honor.

THE COURT: Okay. Obviously, the Debtor and Transform have the burden of proof.

Q You understand that you have to prove not only financial wherewithal but you have to prove proof of adequate -- of performance, not only financial but operating performance. Is that right?

A In what sense?

Q You understand that the Court requires you to prove financial wherewithal and operating performance. You don't understand that or you do, or?

A I'm aware of adequate assurance as far as (indiscernible) of future performance.
Q Just so we're clear, Transform Co. is not going to operate a store at the Mall of America, is that right?
A Correct. It's an asset of Transform Co., correct.
Q There will be no operations or operating performance by Transform Co. at the Mall of America, is that right?
A Our plan is not to operate. That is correct.
Q As you sit here today, do you know -- do you have a tenant ready to take over that space and operate in it?
A As I sit here today, I have interest from multiple tenants, but it's a process that takes time.
Q So, you have no tenant, at today's hearing, that would take over and operate in that space?
A Today? Literally today? No.
Q Yes, literally today. All right. There's nothing in your testimony submitted to the Court by declaration that indicates any evidence or discussion how Transform Co. will or a hypothetical tenant might operate from the premises, is that correct?
A Can you be more specific with your question? I'm not sure I'm understanding it.
Q Well, you have nobody that's going to operate in the premises as you sit here today.
A You asked me that earlier if I have a tenant today and

I said no.

Q You're unable to show today anybody that could be -- because you have no one.

A I don't think that's an accurate characterization of what I said at all. The lease is significantly below market, we're paying $10 (indiscernible).

THE COURT: All right, just stop. Sir, you don't need to ask the same question three times.

MR. FLYNN: You bet. Yes, Your Honor.

Q There's no one that -- you did say --

MR. FLYNN: That's all I have, Your Honor. Thank you.

THE COURT: Okay. I would like to follow-up on one of Mr. Flynn's question.

MR. JERBICH: Sure.

THE COURT: You're not an actual employee of TransCo, right? You work -- you're a consultant for them?

MR. JERBICH: Correct.

THE COURT: Has Transform, excuse me, placed any limitations on you as far as the types of tenants that you are soliciting?

MR. JERBICH: No.

THE COURT: None? So, if --

MR. JERBICH: I mean, to the extent, obviously, within the parameters of the lease, the REA.

THE COURT: But no other limitations?

MR. JERBICH: No.

THE COURT: As far as who the types of prospective tenants that you are speaking with, what, generically, what sorts of businesses are they in? How would they use the space?

MR. JERBICH: We've had dialogue with an international retailer that's expressed interest in one of the floors. A national retailer as well. And there are really opportunities even beyond that.

THE COURT: Okay. Such as?

MR. JERBICH: Well, could be healthcare use, there's a tech center being built nearby coming up. It's a 73-year lease, Your Honor, so there's -- sky's the limit, honestly.

THE COURT: Well, it's a shopping mall, right?

MR. JERBICH: It is.

THE COURT: So, what would be the basis for it being used for office purposes? I'm assuming that's what you mean when you say a tech center.

MR. JERBICH: I just used it as an anecdotal example. There is office in the mall as well, right now.

THE COURT: Of what size? I mean, is it like back offices for the Mall of America Corp. or office --

MR. JERBICH: I want to say -- there's a full

campus building, 40- to 60,000sf of office space. I don't have the exact size, Your Honor, but it's -- that wouldn't be a primary plan. The primary plan would be for a retailer but we don't want to limit it because it's not limited within the REA.

THE COURT: Okay.

MS. ALBANESE: Your Honor, may I have a couple --

THE COURT: Sure, if you want -- a redirect?

MS. ALBANESE: -- minutes to redirect? Yeah.

THE COURT: Sure.

MS. ALBANESE: Thank you.

REDIRECT EXAMINATION OF MICHAEL JERBICH

BY MS. ALBANESE:

Q Mr. Jerbich, can you describe what the lease requires the tenant to pay and the additional security that you mentioned that Transform has offered to MOAC?

THE COURT: Well, I have that in his direct testimony.

MS. ALBANESE: Okay.

MR. JERBICH: Okay.

MS. ALBANESE: Okay.

Q Just one point of clarification. You had mentioned that it was a one-year letter of credit, but I believe that's not accurate. Can you just clarify what the one-year security --

A We would escrow a one-year security with taxes, CAM, insurance, and rent.
Q Okay, which adds up to?
A About $1.2 million. $1.1m, $1.2m.
Q Thank you.
A Full financial obligation.
Q Okay. Thank you, Mr. Jerbich.
THE COURT: Any redirect?
RECROSS-EXAMINATION OF MICHAEL JERBICH
BY MR. FLYNN:
Q You know, there is an office building attached to the mall. It's not in the mall. Is that correct? Do you know that?
A It's attached, okay.
Q It's not --
A It's on the campus.
Q It's not in the mall.
A It's on the campus, correct.
Q There's also hotels attached to the mall, but not in the mall.
A Okay.
Q And you are required, according to your own testimony, to be limited to a first-class retail operation not inimical to the mall. You quoted that in your own testimony, is that right?

A Not -- yeah, and I walked many malls in the last year and there's a variety of uses within a mall in 2019. In first-class malls.

Q In your declaration, did you give any testimony -- you didn't give any testimony other than -- you can -- how you would protect the mix of retail clients at the mall. How you would do that. You didn't give any testimony to that effect.

A I didn't because I do not believe our REA or lease requires us to.

Q Well --

A In fact, it specifically allows us for virtually any lawful use.

Q "Retail not inimical to the mall."

A Not inimical to the mall, correct.

Q And also, the lease requires that any use be in harmony with the other tenants in the mall. Is that right? Is that right?

A Can you point me to that specific portion of the REA?

Q Prohibitions, on Part D of the lease. Have you read the lease?

A Can you tell me which MOAC tab that is?

MR. CHESLEY: It's 1.

MR. JERBICH: It's 1?

Q Tab 1. In the -- excuse me, it's in the REA.

A Okay.

MR. CHESLEY: So, 3.

MR. JERBICH: Three, thank you.

Q Page 55. Prohibitions.

A Yeah, I'm reading it. It says: "in harmony with the development of operation of a first-class regional shopping center containing," and it goes: "air conditioned mall, hotels, family entertainment center, not limited to the following," and it goes on. Is there a specific -- we don't plan on putting (indiscernible).

Q You understand that whatever you put in there has to be in harmony with the rest of the mall. You understand that, correct?

A It says: "which use or operation is obnoxious to or out of harmony with the development or operation of a first-class regional mall." We have no intention of doing anything that's not in line with what a first-class mall would have.

Q But you have no proposal for anybody that -- all right.

MR. FLYNN: That's all I have.

A It's a 73-year lease. We don't have one today, we said that.

MS. ALBANESE: Your Honor, just one point. I just wanted to point the witness to Section 22(c) of the REA just to clarify one point that Mr. Flynn had said, and that's on

--

THE COURT: Well, you mean ask him a question about it or you just want to point it out?

REDIRECT EXAMINATION OF MICHAEL JERBICH

BY MS. ALBANESE:

Q Does the REA permit non-retail use? Could you look at Section 22(c) of the REA?

A Do you have a page on that, Rachel?

Q It's 126 of the REA.

A As I look, I do recall reading that it does, but let me confirm. That is correct.

MS. ALBANESE: Thank you.

MR. FLYNN: What section? Excuse me, what --

MS. ALBANESE: 22(c) of the REA.

MR. FLYNN: What page?

MS. ALBANESE: Page 126.

MR. FLYNN: Okay. Just so they're clear, the only non-retail activity you can do there is as reasonably incidental to your retail activity. That's what it says.

MR. JERBICH: I mean, just in the mall itself, you have a Crayola exhibit, you have a roller coaster, you have a miniature golf course.

MR. FLYNN: I'm talking about what you're bound by. This REA --

THE COURT: This provision, i.e., Provision 22(d).

MR. JERBICH: And so, what was your question again? I apologize.

MR. FLYNN: You're bound by this and it does --

MR. JERBICH: We're bound by the REA, yes.

MR. FLYNN: And it requires only non-retail activities that are reasonably incidental to a retail activity. For instance, an ATM machine or something like that. That's all it was. You're required to do retail.

MR. JERBICH: I don't believe that's --

MR. FLYNN: Well, we can --

MR. JERBICH: -- that we're required to do retail there.

THE COURT: Well, you all can point me to the relevant sections. Okay, any more questions? All right, you can step down, sir.

MR. JERBICH: Thank you, Your Honor. .

MR. CHESLEY: Next witness, Your Honor, is Roger Puerto, and Mr. Martin will handle his testimony.

THE COURT: Okay. Would you raise your right hand, please? Do you swear or affirm to tell the truth, the whole truth and nothing but the truth, so help you God?

MR. PUERTO: I do.

THE COURT: Could you spell your name for the record?

MR. PUERTO: R-O-G-E-R, last name Puerto. P as in

Paul, U-E-R-T-O.

THE COURT: Mr. Puerto, you submitted the declaration dated August 18th, intended to be your direct testimony in this proceeding. Sitting here today, is there anything that you'd like to change in it?

MR. PUERTO: No.

THE COURT: And you understand it is your direct testimony?

MR. PUERTO: Yes.

THE COURT: Okay. All right. Any cross?

MR. FLYNN: Your Honor, I'd like to voir dire the witness for the purpose of making an objection.

MR. MARTIN: Your Honor, before -- just a housekeeping matter before that. Craig Martin, for the record. Paragraph 7 and one sentence of Paragraph 8 were redacted and filed under seal, and we've discussed with the witness, and I've discussed with Mr. Flynn that the key parts there are the actual numbers, so we may use the terminology -- the numbers in Paragraph 7 or the number in Paragraph 8 so that we can avoid actually stating the sealed information and not have to worry about sealing the courtroom or taking any further action.

THE COURT: Okay. That's your understanding too, Mr. Flynn?

MR. FLYNN: Yes, Your Honor.

THE COURT: Okay. All right, so, you can go ahead.

VOIR DIRE OF ROGER PUERTO

BY MR. FLYNN:

Q In Paragraph 7, you state that: "appraisals were conducted," is that correct?

A Yes.

Q Did you do those appraisals?

A No.

Q Have those -- those appraisals haven't been submitted into evidence to the Court?

A Not to my knowledge.

MR. FLYNN: I move to strike references to the appraisals as hearsay.

MR. MARTIN: Would you like a response, Your Honor?

THE COURT: Sure.

MR. MARTIN: Initial point is, we're not offering Mr. Puerto as an expert on valuation. We're offering him as a fact witness. He is stating that he is aware that appraisals have been done and an aggregate value reflect the amount of value represented, and certainly, the testimony is then designed to reflect the process that he's undertaking to maximize that value. And I believe is testimony will be focused on his actions and his increase in that value. And

so, we're not offering the fact of the appraisals for the truth of the matter asserted, but just that they've been done and they create a -- as a matter of fact, that they have been done; as a matter of fact, they contain an aggregate value. So, I would request that the Court permit the statements in Paragraph 7.

THE COURT: Okay. Well, he's clearly not offered as an expert on valuation and I won't take this -- these dollar amounts as the value of the portfolio but simply as evidence that Transform believes that it has a valuable portfolio and that it's seeking to realize it.

MR. FLYNN: Thank you, Your Honor.

Q I would also like to talk about Paragraph 8. You testified that Transform could sell over -- or excuse me, a certain dollar amount, that's the second sentence in Part 8.

MR. FLYNN: I would move that removed -- object to that as speculation and not a fact.

MR. MARTIN: Would you like a response to that, Your Honor?

MR. FLYNN: And we could tie these together, Your Honor. And it goes on to say in addition, Transform could potentially sell, and then it gives a number, worth of unencumbered property as well. That is pure speculation. I move it be stricken.

THE COURT: Well, you can ask him about it and how

he came up with that. I don't see it as pure speculation. I mean, you can question him on the basis for why he believes that.

MR. FLYNN: All right.

THE COURT: And again, knowing that he's not an expert.

MR. FLYNN: Well. And again, I would -- well, if --

Q You are attempting to sell certain assets of TransCo, is that right? Or monetize them? Is that what you're trying to do?

A Yes.

Q Has that been completed?

A No, it says it's potentially what could be sold over the next six months, so they have not been completed.

Q But as you sit here today under oath, you have no idea what you're going to sell, isn't that right?

A No, I have an idea based on the numbers that I put in the declaration based on the pipeline of deals that I have, or in the process of negotiating with various buyers. They could or could not happen. But, based on a degree of certainty, I'm comfortable saying in the next six months, this is what we can sell, based on the pipeline and just in general, the way I've been selling real estate for the past 18 months prior.

Q But you don't know for a fact that that's going to happen, as you sit here today in Court under oath?

A It's not -- I don't know for a fact. It's real estate. Anything could change in a single day.

Q Thank you.

A Yeah.

Q And then you say --

MR. FLYNN: I would like to raise an objection to Paragraph No. 9, Your Honor.

Q Therein, you state that: "The Mall of America, MOAC, as a landlord, is rarely concerned with the ability of Transform to meet its continued financial obligations. Rather, they are principally concerned with extracting value."

A That's my opinion.

Q You don't know that. That's not a fact.

A I don't know the specific mall, but in general, based on how I've sold real estate, that is usually the case. No, I don't --

MR. FLYNN: I would move to strike that is pure, inappropriate opinion about the mind of my client.

THE COURT: Well, it's also the opinion of several (indiscernible) decisions by bankruptcy judges, so I'll deny that motion.

Q Are you in charge of getting tenants at the mall? Are

you working with Mr. Jerbich on that, or?
A No, I'm not in charge of getting tenants.
Q The mall will testify that they'll put an anchor tenant in there for almost no rent. Would they make a lot of money and grab the equity out of your lease? Does that make them evil or inappropriate?
A No, but it's possible they'll save on co-tenancy issues that would have to, if they didn't put a department store there. And that could be significant.
Q But we know that Transform Co. cannot afford to put an anchor tenant in there because the rent would be so low, they couldn't make any money on it. Isn't that right?
A Well, we don't have to put an anchor tenant in there.
Q Well, you can't afford to.
MR. MARTIN: Your Honor, objection. Assumes facts not in evidence and it's asking for financial --
THE COURT: No, I know -- differently, is it your -- based on your experience, Mr. Puerto, would, quote, "an anchor tenant" only be likely to agree to a long-term sublease of this space at issue if it paid de minimis rent?
MR. PUERTO: If an anchor tenant was not going to pay rent here and there was the demand to put the anchor tenant there, it would likely go there because it's a great property, great mall.
THE COURT: No, I'm saying something differently.

MR. PUERTO: Sorry, can you rephrase the question, then?

THE COURT: Obviously, if you offered de minimis rent, that would be attractive. But if you were, instead, offering a substantial rent. I don't even know what that would be, but a substantial rent --

MR. PUERTO: Right, right, I understand.

THE COURT: -- is it conceivable that any anchor tenant would take that deal?

MR. PUERTO: If you were to put a significant amount of capital into it to support the rent. I mean, it’s -- it, again, comes down to the real estate, the quality, where it’s located, for an anchor to make a decision to be there. There’s not that many anchors today that are taking 177,000sf. You know, the highest and best use for this real estate is probably not an anchor. For them, it could be, but for us, it likely would not be, because we look for tenants that would pay higher rents.

THE COURT: Okay. I phrased that question as I thought you were asking it, but you can go ahead.

MR. FLYNN: No, that’s...

Q So, Transform Co. would like to reap the benefits of the equity in this lease by getting highest rents as possible and keep the difference. Is that right?

A It’s -- if we wanted to maximize value in the real

estate, that would be the process to undertake.

Q If there was an anchor tenant available for de minimis rent, that'd be an excellent fit for the mall, you wouldn't agree to that, would you?

A Not if it didn't maximize the value of the real estate.

Q Yeah, right. So, you're interested, primarily, in getting money. Not necessarily the mall, as I think it was concluded.

A Can you rephrase that? Sorry.

MR. FLYNN: Never mind. I have no further questions, Your Honor.

THE COURT: Okay. Any redirect?

MR. MARTIN: No, Your Honor.

THE COURT: Okay. You can step down.

MR. PUERTO: Thank you.

MR. CHESLEY: That would conclude Transform's evidence, Your Honor.

THE COURT: Okay. And obviously, I have the agreed exhibit --

MR. CHESLEY: Agreed exhibits which have been admitted and stipulated as fact. Yes, Your Honor.

THE COURT: Okay. You may proceed with your witnesses.

MR. FLYNN: Your Honor, we'd like to move, at this time, under Rule 52, for partial findings against the

Plaintiff -- against the Debtor. They have failed in their burden of proof; which they admit they have to prove adequate assurance of future financial ability and adequate assurance of future performance. They -- performance means not financial performance, it means operational performance. Is the tenant able to drive tenants to the mall? Do they have a substantial advertising budget? Do they -- and this is all cited in the cases, which I'm sure you could read or are well aware of.

THE COURT: Actually, I have not seen that cited in a case, so I'd like you to cite them to me.

MR. FLYNN: Can I have the brief? Well, I will cite those. I will -- we have filed a brief with the Court, which has these cases in there.

THE COURT: Well, then you better cite me to the specific provisions in the cases, because I didn't see that.

MR. FLYNN: Well, all right.

MAN: You don't have to do it now.

MR. FLYNN: All right. There are a number of cases that we've cited, and I can go quickly through them, including the Third Circuit, which requires adequate -- that performance drive -- to do a number of things to aid or fit in with the harmony of the mall and the tenant mix. They have given no evidence that they're able to comply with what's required for tenant mix. They've given not -- that

is a requirement under the code. They are required to show operating performance equal to -- similar to that Sears at the time they entered into the lease. We went into that extensively in our briefs, operating performance, and they have presented no operating performance because they don't intend to operate. They're going to try to find somebody to operate, and all we can do is speculate on what operation performance might be in the future.

However, I see nothing in the code that says they can prove that at a future date. They have to prove today what the operating performance will be. They can do certain things at a future date. If they are dark, they get some reasonable time to reopen. But they can't come into court today and say, don't worry about operating performance or tenant mix. We'll fix that later. And those are rights in addition to the rights under any lease, because they don't refer to the -- they're required to be in a lease or (indiscernible).

THE COURT: You're aware that there are several cases in this District that disagree with that latter proposition, including in re Ames Department Stores, 127 B.R. 744, (Bk. SDNY 1991)?

MR. FLYNN: I'm aware that there's a mix in case law on this, but there's no -- the operating performance is a requirement of the code, and they presented nothing, and

cannot present anything because they're not going to operate. It's not something. They presented nothing. They have nothing to present. They don't have a tenant to go in there. They just say, let us rent it and trust us. We'll do this -- we'll fix -- don't worry, it'll be okay. We have no evidence of anything. They are required to show, first of all, they gave us the Reicher declaration, which had exhibits. We only got the exhibits, and the exhibits given to us for adequate assurance state right on them that they can't be relied upon for any reason and cannot be used for assurance of anything. That word is used.

They simply have no current -- it's unbelievable to me that they can't provide financial information, which is adequate, appropriate, and makes some sense. They have -- we read that; we can't even believe it. What are we supposed to -- what are we supposed to be assured about? We are the opposite of assured. The Reicher himself said if they don't sign all these leases, they're going to go out of business. We don't know the status of the business or what happened to the assignments.

THE COURT: Do you dispute that, in addition to the $10 a month rent, the aggregate amount payable under the lease, with a reasonable estimate for the taxes, is approximately $1.1m to $1.2m a year?

MR. FLYNN: Yes, we do. That's approximately

correct. That’s correct.

THE COURT: I’m sorry, you do dispute that or you do --

MR. FLYNN: We do agree with that.

THE COURT: Okay.

MR. FLYNN: And, just a minute here, Your Honor. So, we don't know how -- and if the Court wants to rule that they don't have to be equal to or similar to Sears, our position is, they haven’t come close -- they haven’t really proven anything. They have no adequate, reasonable, appropriate financial evidence. They have no evidence at all about operations of any kind, and in fact, specifically state they’re not going to operate and may not have to -- in their briefs and in their declarations, for as much as two years, this thing will be dark, and they can do anything they want. We can go through all the provisions in the code. There’s many others that weren’t -- but have been submitted in the exhibits, that limit their ability on what they can do with that property, even under the lease.

There’s many others that weren’t -- but have been submitted in the exhibits, that limit their ability on what they can do with that property, even under the lease. But in any case, they haven’t come close to meeting the burden of proof that gives adequate assurance of future financial performance and operating.

THE COURT: Under the lease, do they have to operate a store?

MR. FLYNN: Yes. I think they do, but they might have time.

THE COURT: And what provision -- I'll read it at -- obviously, the lease incorporates the REA. What provision are you relying on for that?

MR. FLYNN: I'm going to let my partner, Mr. Beeby, kind of go through the lease provisions and the REA provisions if the Court has questions about those.

THE COURT: Okay.

MR. BEEBY: Good morning, Your Honor. My name is Alex Beeby. I'm also at Larkin Hoffman. With regard to remaining dark, and I'm sure you've read all of the pleadings, and there is reference to the idea that the Sears space can go dark in the REA, which is true: it can go dark. But the REA does not necessarily permit the space to stay dark. With regard to the provision that allows the space to go dark, and let's see here, I believe it's Page 143 of the REA, which is Section 25(d)4, explicitly says that: "At all times," which, just to put it into context, it says: "After the major operating period of Sears," this is after the initial 15 years, "Sears shall have the right without developer's consent but at all times subject to the applicable provisions of Article 22 hereof to vacate the

lease," and then it goes onto the 50 million aspect, which I'm sure will come up later.

If we turn back to Article 22, that is specifically incorporated into that provision, I believe it is on -- let's see, here. Let me find the exact page, here. That section starts, 22(c), starts on Page 123 of the REA. And then on 126, which was referenced previously on the stand, it requires that the use be not -- this is where the section comes up, for any use or purpose -- "shall not be used for any purpose other than retail purposes customarily found in a closed mall shopping center, and non-retail activities customary incidental thereto, or such use and purposes that are not compatible and consistent with, and are not detrimental, injurious, or inimical to the operation of a first-class regional shopping center on each of the three levels thereof."

While the REA does permit, at least temporary, going dark, at some point, it's going to run into, within a reasonable period of time, it's going to run into violating this other provision that is explicitly incorporated into Provision 25 of the -- or Article 25 of the REA and become detrimental, injurious, and inimical to the operation of a first-class shopping center.

THE COURT: Okay, but that says that Sears and its successors and assigns, right, it's not just Sears,

"successors and assigns, shall not use the Sears building or Sears tract for any use or purpose other than retail purposes customarily found in and enclosed mall," and then with the proviso, and then, in the language, "and are not detrimental, injurious, or inimical to the operation of a first-class regional shopping center," which precedes the proviso. So, then you go back to my question. Sears doesn't -- you don't have to have a Sears store there. You don't have to operate a Sears store there. There has to be, subject to the going dark right, which is -- you argue there's some time limitation on it, although it doesn't specify that, it just -- it gives the landlord two years to exercise an option.

MR. BEEBY: With regard to the third floor, yes, correct.

THE COURT: Right, right. And then there's this proviso that the assigns and/or Sears shall not use the building other than for retail purposes, you know, as you just read.

MR. BEEBY: Right, right. Yep, exactly. And that Section 9(d), which is that harmony provision, talks about that. that is a further definition or explanation of what inimical -- what types of uses would be inimical, and then there's a whole list of actually explicitly excluded uses as well.

THE COURT: Right. That's the one that excludes --

MR. BEEBY: Well, above it in Section C -- this is Page 55 of the REA.

THE COURT: Right.

MR. BEEBY: Above it, it explicitly prohibits uses for and office building, and then down below, it prohibits, yeah, mobile home, trailer court park, auto body shop, pet shops, that kind of stuff.

THE COURT: Right.

MR. BEEBY: Yup.

THE COURT: But there's no provision, for example, that says that there has to be an anchor store.

MR. BEEBY: Well, you know, I think that does actually come into play, here.

THE COURT: Okay.

MR. BEEBY: When you look at the aspect of what is harmonious to the operation of a first-class shopping center and what's going to impact the rest of the building, that Section 22(a) puts into context that this space is being envisioned as a department store, and then there are provisions within --

THE COURT: Does it? Where does it say that? (indiscernible) sophisticated partners (indiscernible).

MR. BEEBY: Yeah, Section 22(a), which is on Page

15, Covenance of Majors. It talks about the parties agree that it is in their mutual best interest the stores of the majors be developed and maintained as department stores, and this is key: "as an integral part of the shopping center to permit the shopping center to contain a combination of occupants which represent a sound and balanced diversification of merchandise."

THE COURT: But can you -- all right.

MR. BEEBY: And at this point, I'm restricting myself, I should say, to what is on the record at this point because we're dealing with a motion on partial findings.

THE COURT: Right. But A is followed by B and C, which deal with the specific anchor stores.

MR. BEEBY: Yes, you're correct, Your Honor. And it provides the context.

THE COURT: These are four very sophisticated parties. I would have thought that if the intention of C was that an anchor store always be maintained, notwithstanding the right to assign or sublet, they would have said that.

MR. BEEBY: Well, Your Honor, there's also other provisions that come into play that would, absent the bankruptcy-type setting, in which -- which, under the bankruptcy-type setting, as the -- Transform has argued would be a prohibition on assignments, but there are other

provisions that could, absent this scenario, be used to acquire that property back, if it was being held dark.

THE COURT: Oh, acquire it back, yes.

MR. BEEBY: Right.

THE COURT: I understand that. (indiscernible).

MR. BEEBY: Right, and then be able to maintain that control.

THE COURT: But I actually read -- this is a question for Transform’s counsel. I actually read Transform, in one of its pleadings, stating that it is prepared to live with the buyback option.

MR. CHESLEY: Correct, Your Honor. We will abide by it.

THE COURT: I mean, there are -- you’re right, there are cases that say that buyback options are invalidated by 365, but I think they’ve said they won’t press that point.

MR. BEEBY: And I would have to defer to -- with regard to that...

THE COURT: Okay. All right.

MR. CHESLEY: Your Honor --

THE COURT: I don't think counsel’s finished. I think he just was --

MR. CHESLEY: Okay, I’m sorry. I thought we were done.

THE COURT: -- referring to his colleague to walk me through the lease and the REA.

MR. FLYNN: I would argue, too, for what it's worth, is the decode itself in I think a number of the cases, and we'll cite them, do not -- it doesn't say what's in the lease. It doesn't say or require that it be protected by their lease. It's an additional requirement put in by Congress, if you intend to use Chapter 11, to get these transactions done this way. And they have chosen Chapter 11 to get these transactions done this way. They are bound by the strict, reasonable readings of the law. And whether or not it's in a lease, they are required to show that they have adequate financial wherewithal and a plan that makes some sense, and performance. And they simply can't do it, because there's nobody to be put in there at this point and they don't know what will happen.

THE COURT: Well, if the lease lets them operate in a specific way, you're saying nevertheless, the Court should provide some other gloss on operation?

MR. FLYNN: Yes, and the thinking of that --

THE COURT: Yeah? Do you have any case that takes that view?

MR. FLYNN: Yeah, there's a number of them, but they say --

THE COURT: Okay, I just -- I'd be happy to be

cited to one.

MR. FLYNN: All right, yes, Your Honor. I have it marked up here on our brief.

THE COURT: Okay.

MR. FLYNN: The Casual Male, 120 B.R. 264 is one. They require In Re Rikel, which was cited often, involved a lease that allowed it to go dark. I have the cite here, but -- and the Court said, we're going to make you open within six month, and you have to have a tenant that the landlord will agree to.

THE COURT: That's how you read Rikel?

MR. FLYNN: Yes, I do.

THE COURT: All right. Okay.

MR. FLYNN: Yes, I do. In fact --

THE COURT: So it's just the cases you cited in your brief, no other cases for me?

MR. FLYNN: I think there are other cases. We could come up with more, but that's a good start. And there's a Third Circuit case and -- so, yeah.

THE COURT: Okay.

MR. FLYNN: And others cited. And Rikel, yeah, involved a landlord that, the premises go dark, and the code -- they sit under the -- because we think in the legislative history, which we also supply to the Court, we have some (indiscernible) cases in state that because landlords,

they're taking rights away from them, special provisions have been made for shopping centers to give them rights back that they might not otherwise have, and it doesn't refer to anything in a lease or protecting --

THE COURT: Well, it does refer to the benefit of the bargain, which one assumes is the contract they entered into. That's what the legislative history refers to.

MR. FLYNN: Well, yeah, and it also refers to destroying malls with improper mix of clients, destroying -- they -- no evidence of proper mix, and no evidence of anything under -- they simply said, here's some financials that aren't very worthy right on their face. And then they say, don't worry, we'll get a tenant. Don't worry, it will all work. They have failed to date to meet their burden of proof.

The cases are worried about whether or not a tenant that they're proposing will be put into bankruptcy or not have -- the tenant will go bankrupt. We have no idea who the tenant's going to be, so we have no idea if the tenant is going to have actual financial wherewithal. Because the damage is not that Transform necessarily go bankrupt, but whoever they put in would go bankrupt.

THE COURT: Well --

MR. FLYNN: They've kind of jumped the rail because they're not doing it the normal way. They're taking

the assignment of it first and then saying, don't worry, we'll get a real tenant later. And so, when it's good for them to say, you know, we're the tenant, they say that, and they say, when it's not good for them, they say well, it's this other person that we're going to get in the future. Don't worry about it. And so, which is it?

We are concerned about the tenant, we are concerned there is no tenant, we are -- if it's going to operate or do anything there. We are concerned about the tenant's ability to pay their rent, to go bankrupt, to do a high-class job, to be -- we're concerned about all of that. That's fine. They have presented no evidence of what they intend to do, except they say there's a lot of things we could do, pretty much when and if we want.

THE COURT: Is there a limitation in the lease on the financial wherewithal of a prospective S&E or subtenant?

MR. FLYNN: I don't know. There's a -- I don't believe there is. However, however, the code does require that.

THE COURT: Well, and then I suppose -- I mean, maybe I'm anticipating Transform's argument, but they will say, I believe, that MOAC can rely on the restriction in Paragraph 22C that it be consistent and compatible with the operation of the first-class regional shopping center. I'm assuming that would include that if someone purports to be a

first-class operator, or an operator whose store would be consistent for a first-class shopping center, that would include some financial wherewithal.

MR. FLYNN: Yes, yes. And, but the point is, we don't know who that is today.

THE COURT: Well, no, but if they provide it, then you could say, no, these people aren't -- they're not consistent with the operation of a first-class shopping center.

MR. FLYNN: That's true, except I see nothing, and our position would be that there's nothing in the code that allows them to show (indiscernible) to that in the future. They are required to show that today --

THE COURT: Well, they're required under the lease to show you in the future -- they would be.

MR. FLYNN: There are many requirements in the future under the lease.

THE COURT: Right.

MR. FLYNN: I'm referring to the code, and the code doesn't say, don't worry about it, you can show later whether they'll be adequate, there will be a proper mix. Don't worry about it.

THE COURT: Okay.

MR. FLYNN: We'll leave that go.

THE COURT: All right, but that just comes back to

the issue as to whether 365(b)(3) requires the Court to determine, separate and apart from the contract, pursuant to which adequate assurance of performance has to be shown -- or under which adequate assurance of future performance has to be shown, i.e. that contract, that you have to look into, generally, issues as to what makes up a proper mix or balance in a shopping center, for example.

MR. FLYNN: Well, and you've got to do that today, and --

THE COURT: Well, that's where we have a dispute, I guess.

MR. FLYNN: Okay.

THE COURT: Again, I have yet to see a case that says that, and I've seen several that go the other way.

MR. FLYNN: So there are many cases that say that you have to show how the tenant will drive customers to the mall.

THE COURT: Show me one.

MR. FLYNN: I'll quote from it.

THE COURT: Okay.

MR. FLYNN: Just a minute, Your Honor. One of the leading cases -- I apologize, Your Honor.

THE COURT: Okay.

MR. FLYNN: In Re Joshua Slocum, that's a 922 F.2d 1801, (Third Circuit 1990), Congress in 1978, and again in

'84, placed additional restrictions on assignment of shopping center leases in order to protect the rights of lessors and -- and here's the key phrase -- the center's tenants. And then it says, Congress -- and it doesn't say, unless they (indiscernible) or didn't in the lease. Congress recognized that -- of the unusual situation where a lease assignment affects not only the lessor, but an assignment shopping center to lease to an outside party can have significant detrimental impact on others. Okay? So we don't know what the impact will be unless we know --

THE COURT: I read Joshua Slocum.

MR. FLYNN: Okay.

THE COURT: The issue that we're discussing is not dealt with in Joshua Slocum. Those are general statements of the purpose of the law.

MR. FLYNN: Okay. All right, Your Honor. And, again, In Re Rikel, it says specifically that even though there's no -- there's a go dark -- they're allowed to go dark, they should -- they have to reopen within a reasonable time and required them to do so within six months.

THE COURT: But there was a specific prohibition in the lease in Rikel about going dark.

MR. FLYNN: Right. Right.

THE COURT: So, again, the issue (indiscernible) there as to whether 365(b)(3) imposes conditions on the

parties that they didn't already bargain for.

MR. FLYNN: In Rikel, I believe it had -- the tenant had the right to go dark and the Court there specifically said, you've got to open up. I'm sure that that's the case. It specifically said that. And in fact, it's been acknowledged by the other side, and they've offered to open up within two years in their pleadings.

Again, Casual Male states, and I quote, "The assignee should have similar operating and financial performance when all factors, including advertising, aggressiveness, profit margins, growth potential, and other indicia are weighed." It doesn't say, just look at can they pay the rent. We don't protect tenants when we just say, well, all they got to do is pay the rent, and that's what Congress was intending to protect. And I believe -- I believe -- the Third Circuit has also agreed to that.

But they also concerned in -- about whether or not a tenant will go bankrupt in the space again, and that would be inimical to the mall and cause -- and that's under the Bankruptcy Code. They require that you show that the tenant not be likely to go bankrupt, the one operating there. If there's another bankruptcy of that tenant, we are going to be in trouble again. We have no evidence of what they intend to do and what tenant they have. They have none. They're allowed to just skip by all that and just say, don't

worry, we'll get you -- and just go by your lease. We have rights today that we would like to enforce, and we think they're bound to comply with those rights.

THE COURT: Okay.

MR. FLYNN: Thank you, Your Honor.

MR. CHESLEY: Your Honor, may I have just one moment to confer with my client?

THE COURT: Sure.

MR. CHESLEY: Thank you. Thank you, Your Honor, for the courtesy. Your Honor, may I propose that, to make this even more efficient, we are happy to take their three declarations without cross and go right to argument. That way, I can argue against the motion to dismiss on the pleadings, as well as put our substantive argument before the Court. At this point, there's nothing that additional cross from those three witnesses will add to the Court's deliberation.

THE COURT: Okay.

MR. CHESLEY: Thank you, Your Honor.

THE COURT: So let me just --

MR. CHESLEY: Yes.

THE COURT: I think what I would like to do before you do that, though, is the following. I have the declarations by Mr. Frillman, Mr. Ghermezian, G-H-E-R-M-E-Z-I-A-N, Mr. Hoge, H-O-G-E. Are each of those gentlemen here,

present?

MAN 2: Yes, Your Honor.

MAN 3: Yes, Your Honor.

THE COURT: Okay. So, you can sit down. I'm not going to put each of you on the stand and go through what I did to introduce each of the Debtor's -- Transform's two witnesses, but I want you to consider that you're under oath when I ask you all three of these questions.

Each of you has submitted a declaration on behalf of MOAC in this proceeding, and I have them in the exhibit book. They were submitted as your direct testimony in this proceeding. Being here today, would that continue to be your direct testimony? And, if not, is there anything that you would like to change in the declarations?

MR. FRILLMAN: No.

THE COURT: No for Mr. --

MR. FRILLMAN: Frillman.

THE COURT: -- Frillman, so your direct is testimony not going to change.

MR. HOGE: Mr. Hoge.

THE COURT: Mr. Hoge, I'm sorry, I mispronounced your name.

MR. HOGE: That's okay.

THE COURT: Same answer?

MR. HOGE: Same answer.

THE COURT: Mr. Ghermezian?

MR. GHERMEZIAN: I'd like to explain, and I'd like to add to what I've submitted.

THE COURT: You'd like to add something to it?

MR. GHERMEZIAN: Yes.

THE COURT: Okay.

MR. GHERMEZIAN: I want to explain (indiscernible).

THE COURT: Are there -- do you want to talk to him first, before he does that? This is not a correction? This is just an addition?

MR. GHERMEZIAN: (indiscernible) more explain (indiscernible) more (indiscernible).

THE COURT: Do you want to have him supplement it?

MR. FLYNN: Yes, Your Honor.

THE COURT: Okay, so can you take the stand, sir? Okay, I know I essentially did this already for you, but I'm going to ask you to raise your right hand and I'm going to put you under oath. Do you swear or affirm to tell the truth, the whole truth, and nothing but the truth, so help you God?

MR. GHERMEZIAN: I do affirm, yes.

THE COURT: And it's Raphael G-H-E-R-M-E-Z-I-A-N?

MR. GHERMEZIAN: That's correct.

THE COURT: Okay, so do you want to ask him -- I

understand, Mr. Ghermezian, that you wish to add to or supplement your declaration that's otherwise serving as your direct testimony?

MR. GHERMEZIAN: That's right.

THE COURT: Okay.

DIRECT EXAMINATION OF RAPHAEL GHERMEZIAN

BY MR. FLYNN:

Q Okay, Mr. Ghermezian, how would you like to supplement that, please? Go ahead.

A I just want to explain, Your Honor, there is a misunderstanding here.

THE COURT: You have to speak a little louder, sir.

A This is clear now?

Q Yes.

A I just want it clear that there is big misunderstanding here. The misunderstanding is that Mall of America is not the shopping center. It is not (indiscernible) usual or --

THE COURT: If you're basing it on my language, shopping center is the term that Congress uses in the Bankruptcy Code. I appreciate that it's not an A&P or a, you know, shopping center like that. I appreciate that it has its own characteristics. I'm just using that term because that's the term Congress uses generically, and the parties have all agreed that it fits within that term.

A Yeah, just please, you know, let me go ahead and explain. First of all, Mall of America is not a shopping center. It's a tourist attraction. It draws -- Time Magazine took a survey and explained and recorded that Mall of America, there was more tourists (indiscernible) than Disneyland, Epcot, and Grand Canyon combined. The Mall of America is a golden goose of Minnesota. It lays golden eggs of $3 billion annually for Minnesota, hires 13,000 people -- 13,000 people. It's -- I believe it is a huge asset of Minnesota and the city that we are in. If it fails, if it fails, it would be a big loss to the state is what I think the Court should consider.

Let me explain. When we made this deal with Sears Corporation, it was a huge corporation. It was never anticipated that one day, they were going to go bankrupt and some scavengers are coming there and (indiscernible). I'm just going to make the best money I want only. What I'm trying to impress upon Your Honor is that the word appropriate and the word -- what was the other they used, appropriate and customary -- in this case is not -- is different. It has to be specific to this project. What is appropriate and customary for this project is that if Sears does not operate as a department store, or if it does not operate, it's closed door, it actually is right, actually right, to a number of tenants, to terminate a lease.

Now, when these tenants, when these tenants today, the retail situation in the country is very, very precarious. It's very sensitive, and if tenants go, they go under certain percentage, under 80 percent, which is very likely to happen, as a result of that, almost every other tenant in the project can leave.

Now, today, they may not leave that fast, but this gives them an excuse to leave. If the tenant leaves, the shopping center is finished. And, believe me, it's not inconceivable. They are leasing today (indiscernible). They location where Sears today is, is at the end of two malls. On every corner similar to that, you have to have (indiscernible) a department store. City of Bloomington is spending $270 million of their own money to build a project attached to the mall. If this mall fails, and believe me, what happens to Sears can actually bring the mall down to nothing. This is not an exaggeration; it is real. It's true, this can happen.

I think in this situation, you should (indiscernible) a special interpretation for appropriate and customary in this case. Appropriate and customary in this case is only (indiscernible). I think they should -- if you are not going to disallow the assignment, and if you're going to let them have the assignment, I think you should have a limited time as to when they have to lease this, and it has to be

limited to department stores, because if we don't have a department store, the mall could go down, because this is the term in many of the leases.

Also, I think we should have an absolute right in this case of approving (indiscernible). Now, this really is not only to add --

THE COURT: So I'm going to cut you off, because you're really just giving me legal argument at this point.

MR. GHERMEZIAN: I know.

THE COURT: Okay. Do you wish to cross-examine?

MR. CHESLEY: I'm sorry, Your Honor, I think I have to just on a couple points.

THE COURT: Okay.

CROSS EXAMINATION OF RAPHAEL GHERMEZIAN

BY MR. CHESLEY:

Q Just briefly, Mr. Ghermezian -- actually, good afternoon. Quickly, with respect to department stores in the mall, am I correct there was a Bloomingdale's in the mall that closed in 2012?

A Yes. We had four department stores, but our contractual obligation to the tenants was only three. So Bloomingdale's didn't have any effect, but Sears will actually bring the mall down.

Q Thank you, I'll -- let me -- if you could just answer my question, I would appreciate it. There was a

Bloomingdale's in the mall that closed in 2012, correct?
A Yes.
Q And that was replaced by a combination of several different stores, correct?
A Yeah, because we had no obligation to have four department stores, only three department stores.
Q To answer my question, the Bloomingdale's space was carved up into several different new tenants, correct?
A That's correct.
Q Including the Crayola Experience, correct?
A Yes.
Q And the Bloomingdale's store closed in 2012, correct?
A Yes.
Q And that space was finally fully sublet by 2016, May of that year, correct?
A I don't believe. I think we gradually leased this space.
Q When did the Crayola Experience open?
A I don't know, I think like a couple years ago.
Q Okay. Now, you described this Sears location at the end of two courts. That's a valuable store location, isn't it?
A It's not a valuable store location. It's an important position for the mall because every leg of the mall survives by the anchor that is anchoring those legs. Now, Sears is

anchoring two legs of the mall, and if Sears goes dark and stays dark long, or -- that's why we said that whatever you're doing that lease, it cannot be injurious to us, and it cannot harm us. This will harm completely. Really, really, I'm telling you, there is the chance of better than 80 percent that (indiscernible) if Sears brings tenants other than department store or goes dark and stays dark for a long time.

Q You want the location back, don't you?

A I want the location back because I (indiscernible) department store there.

Q In fact, you're in negotiation with a department store to take this space, aren't you?

A Pardon?

Q Aren't you in negotiations with another department store to take the space?

A Yes.

Q And, Mr. Ghermezian, am I right? In your declaration, you refer to that there were many tenant leases at the mall that require that a department store be operated in the Sears space, correct?

A Yes, that is --

Q Those are called co-tenancy clauses, aren't they?

A I believe (indiscernible), yes. We have to have the department store, or else they can terminate their lease.

And today, because of (indiscernible), the chances are very high that we would get (indiscernible).

Q So in fact, that will impact you, the landlord, if there is not a department store operating in the Sears location, correct?

A Not just the landlord, the project itself, the viability of the whole project.

Q Well, there are tenants that can either cut their lease payments or cancel their leases if in fact there isn't a department store in there, correct?

A They can tell me they leave, yeah.

Q Yeah. Sears isn't party to any of those co-tenancy provisions, are they?

A What happens in Sears cannot be injurious, it says in the lease, cannot be injurious to the mall and cannot -- it has to be compatible. It has (indiscernible) with the other tenants. So the only thing that will be compatible and will not injure the mall is going to be a department store, and there are lots of department stores. You can have Sacks, you can Neiman Marcus, you can have Bloomingdale would still today come back, because they have had the situation, the tenants left and they come back 10 years later. Today, the situation in Minnesota (indiscernible) that. You can have Bealls, you can have (indiscernible), you can have -- I can give you a list of 10 department stores. And, believe me,

we can make a deal with one of them. I can make a deal for you, and it can have all the benefit (indiscernible). (indiscernible) yours, but they have to -- whatever cost there is involved, you have to share with us (indiscernible) the cost.

MR. CHESLEY: Your Honor, I'd like to move to strike that answer as simply not responsive to the question.

MR. GHERMEZIAN: What was the question?

THE COURT: I won't do that. That's --

MR. FLYNN: Thank you, Your Honor.

Q Just so I'm clear, you do not want any of these other tenants to invoke their co-tenancy provisions.

A That's right. That's the argument.

Q Thank you. Nothing further.

RE-DIRECT EXAMINATION OF RAPHAEL GHERMEZIAN

BY MR. FLYNN:

Q Are there available anchor tenants that go into that space? Are they available?

A Yes.

Q Okay. Are the anchor tenants generally -- would that be best for the space and best for the mix of the mall?

A That is not just best. I think that it absolutely essential for the mall because it's in an anchor position, and tenants in both legs that leased this position, they are dependent on who is in there (indiscernible) anchor tenant.

And we have an obligation to tenants in the mall, in writing, that this -- that we have to have three department stores. That's why, when Bloomingdale's left, we didn't care, because the obligation was only three.

Q Right. Are you willing to rent to an anchor tenant for very low rent, and even possibly pay an anchor tenant to come to the mall?

A Basically, I'm willing to lease to an anchor tenant for no money, no rent, nothing. And (indiscernible), I mean, to the extent I'm prepared to actually pay a tenant and guarantee them that they make a profit. In other words, if they lose, I pay them money every year for the rest of the lease to just (indiscernible) yeah.

Q And is that the current market for anchor tenants? Is that pretty much what you have?

A Yes, (indiscernible) sign anchor tenants, they will actually guarantee -- guarantee -- that they're going to make a $4 to $8 million profit every year. In other words, if they don't make that, it have to come out of our pocket. And they're negotiating now that a tenant (indiscernible) also guaranteed them that they're going to make profit, and they're only giving us a percentage (indiscernible).

Q All right. Thank you. Anything further?

A No.

Q Thank you.

THE COURT: Okay, you can step down, sir. Okay, so --

MR. FLYNN: Excuse me, Your Honor? May I talk to my witnesses? We may want to address issues that were brought up that aren't in their declarations.

MR. CHESLEY: I would object to that, Your Honor, on -- and I don't want to be too technical here, but their direct was on. I did not cross. We gave Mr. Ghermezian the benefit of the doubt there, which maybe we shouldn't have, but we did. But to now allow an additional direct, when we've decided no need to cross, I think is actually improper.

THE COURT: Well, you're saying you're putting them on in rebuttal?

MR. FLYNN: They brought up issues and made --

THE COURT: I'm just asking if you'd put them on in rebuttal.

MR. FLYNN: I'm putting on my case. I'm putting them on in my case.

THE COURT: No, no, that's a different story.

MR. FLYNN: All right.

THE COURT: I would let you put them on in rebuttal to, you know, the statements that were made on cross by the Transform witness.

MR. FLYNN: Yes, Your Honor, essentially that's

correct. It is correct.

THE COURT: We got into this position because Mr. Chesley wanted to cut through to final argument on this, rather than having two oral arguments. I guess I'll have to give you my ruling on your motion based on the Debtor's pleading then, unless you want to just defer that to the end.

MR. FLYNN: Yes, Your Honor, we will defer to the end.

THE COURT: Okay. All right. Very well. So you can put them on in rebuttal, or some -- you don't have to put them all on, whoever you want to put on in rebuttal.

MR. FLYNN: Mr. Frillman?

THE COURT: Please sit down. I'll swear you in, even though you're probably already viewing yourself as sworn in. Would you raise your right hand, please? Do you swear or affirm to tell the truth, the whole truth, and nothing but the truth, so help you God?

MR. FRILLMAN: I do.

THE COURT: And it's F-R-I-L-L-M-A-N?

MR. FRILLMAN: Yes, sir.

THE COURT: Louis Frillman.

MR. FRILLMAN: Yes, sir.

THE COURT: Okay.

DIRECT EXAMINATION OF LOUIS FRILLMAN

BY MR. FLYNN:
Q Well, Mr. Frillman, you were in the Court this morning when testimony was given by the Transform (indiscernible), is that correct?
A Yes, sir.
Q Did anything that you heard from them change your mind about your opinion?
A No.
Q Did they raise any issues not addressed in your declaration that you'd like to elaborate on?
MR. CHESLEY: Your Honor, I'm going to object. This is not rebuttal, Your Honor, with all due respect.
MR. FLYNN: He's going to discuss issues not raised in his declaration, brought up this morning. That's rebuttal.
THE COURT: Well, you can answer the question. I may cut you off, depending on what you're saying, okay?
A Can you repeat, sir?
Q Did you hear anything this morning that was said in the testimony that was not addressed in your declaration, either at all or sufficiently, that you would like to comment further on?
A Yes.
Q What areas would that be?
MR. CHESLEY: Same objection, Your Honor.

THE COURT: Well, let me hear the answer first.

A There's a -- somebody said the word confusion or misunderstanding, Mr. Ghermezian, I think. The documents that have been presented to the Court and that we reviewed as a part of this process are a presentation of the so-called financial condition of the operating entity known as Transform or Transform Co, which is going to hold assets that have evolved out of the Sears bankruptcy. And that means stores, 425, which I guess is now reduced to about 400, operating stores doing something with the Sears brand name and trademark, and that's posited as the, you know, as the underlying argument to allow this process to go forward.

THE COURT: I'm sorry, this is not rebuttal. I don't know where you're going, but this is something, frankly, that is legal argument. It mischaracterizes the direct testimony, and I'm going to not allow it. This is ridiculous, honestly.

MR. FLYNN: Is there --

THE COURT: The direct testimony was that they were a real estate company, and that's what your Counsel is relying on in saying that this motion shouldn't be granted. There was no testimony about the 425 stores, or anything like that, that wasn't something that you could have addressed in your declaration.

So, just, enough. Is there anything else you want

to address, besides that point?

MR. FRILLMAN: Whatever else I'd have to say evolves from that, because that was a part of the financial statements that were presented.

THE COURT: All right, fine. You can step down.

MR. FLYNN: May I talk to Mr. Hoge before I decide what I'm going to --

THE COURT: Sure.

MR. FLYNN: (indiscernible), Your Honor.

THE COURT: Okay, fine, thank you. All right, would anyone benefit from a five-minute break?

MR. CHESLEY: I probably would, Your Honor.

THE COURT: All right, so I'll be back at -- let's make it 10.

MR. CHESLEY: Thank you, Your Honor, and we should be brief. Thank you.

(Recess)

THE COURT: Please be seated. Okay, we're back on the record in In Re Sears Holdings Corp.

MR. CHESLEY: Thank you, Your Honor. Apologize; it's just a little bit easier to use it from the lectern.

THE COURT: Sure.

MR. CHESLEY: Your Honor, at this point, we would provide a very brief closing, as well as address the motion for judgement on the pleadings that was brought by the

landlord's Counsel.

Through the actual motion, Your Honor, the Debtors are seeking authority to assume and assign the lease for the Mall of America store, to transform Leaseco, the wholly owned subsidiary of Transform Holdco, the acquirer or the majority of the Debtor's assets, pursuant to the global sales transaction.

Before going on, Your Honor, I think it's important to clarify a point that was made repeatedly by Counsel for the landlord, and that related to the Reiker declaration and statement with respect to what will occur if the leases are not assumed and assigned to Transform. I think as the Court is aware, that obviously were the assets that were acquired, and of course that was a critical part of the bargain and, as the evidence has made clear, all but three of those leases have now been assumed and assigned to Transform.

The landlord, Your Honor, has strenuously objected on multiple occasions to the assignment to Transform, with a variety of arguments. But most critically, what they're attempting to do is to rewrite the lease to what they wanted the lease and the REA to provide when Sears constructed this store on its own nickel in 1991. The reading of this lease and the leading of the REA, Your Honor, we believe authorized the assumption of the lease, pursuant to Section

365(b)(3), and I am going to articulate why we believe we've met those standards.

First of all, the arguments that are advanced by Mall of America ignore two fundamental precepts. First, 365(b)(3) is not a standard to be viewed in the abstract. The provisions words, the Third Circuit noted, in In Re Joshua Slocum, craft it as a shield to remedy three problems caused by shopping centers and their solvent tenants, by the administration of the bankruptcy estate. First was the hardship caused by vacancy or partial occupancy? Second was uncertainty of whether the landlord will continue to receive rent, and third, disruption to tenant mix in the shopping center.

The provisions were not, however, drafted as a (indiscernible) for landlords to defeat the assumption and assignment of the lease to a new entity, or unilaterally veto or claim a veto right on an assumption and an assignment that fully complies with a lease in the Bankruptcy Code. And what is critical to the issues before the Court today is that Section 365(b)(3) is, again, not an abstract standard. Rather, as the Court noted in In Re Ames Department Store, 127 B.R. at 752, the legislative history of 365(b)(3), "makes clear that the provision was designed to ensure that the lessor and other tenants maintain the benefit of the original bargain with the Debtor." As the

Court also made clear in Ames, the Court's analysis under 365(b)(3) must be focused on the parties' contractual undertakings, not general notions of assignability and tenant mix.

Transform is only seeking today, Your Honor, to obtain the benefit of the bargain that Sears entered into in 1991. Now, again, the legislative history underlying 365(b)(3) makes clear that the enhanced statutory protections are not intended to block a new purchaser from acquiring the leasehold, but rather, looks squarely at the economic viability of the assignee. As the Court in Service Merchandise confirmed adequate assurances to be evaluated, "on a commercially reasonable standard based upon the information available at the time."

To that end, the mall's protests aside, they do not, nor can they, contend, as the Court in Joshua Slocum was principally concerned with, whether there is any uncertainty as to whether Transform will be able to pay the leasehold cost of approximately $1.1 million a year. Not only has this been confirmed by the witnesses today, but to reduce any economic risk to the mall, Transform has agreed to not only provide a guarantee, but to place one year of leasehold costs into an escrow to protect the mall from any economic risk.

THE COURT: Can I interrupt you there?

MR. CHESLEY: Yes, Your Honor.

THE COURT: it would appear, under the case law pertaining to non-shopping center leases, leases where 365(b)(3) doesn't apply, that the adequate assurance offered would be sufficient. 365(b)(3), though, throws arguably additional factors into the analysis. It begins by saying, for purposes of Paragraph 1 of this subsection and Paragraph 2B of Subsection F, which both require adequate assurance of future performance, adequate assurance of future performance of a lease of real property in a shopping center includes adequate assurance, A, of the source of rent and other consideration due under a lease, and in the case of an assignment, that the financial condition and operating performance of the proposed assignee and its guarantors, if any, shall be similar to the financial condition and operating performance of the Debtor and its guarantors, if any, as of the time the Debtor became the lessee under the lease.

So I appreciate it uses the word similar, but it creates a test that isn't in the general case law, namely, if you look at the financial condition and operating performance of the Debtor and its guarantors, if any, when they entered into the lease, which was here, 1991, and see whether that's similar to the financial condition and operating performance of the assignee. So the case law does

have -- that applies to this section does have the language you quoted about, you know, no reasonable landlord would feel like it was jeopardized here, but they also go through some analysis, at least, of the condition of the Debtor when it entered into the lease, compared to the financial condition of the assignee.

They usually employ, for the first part of that analysis, for public companies, 10-Ks and 10-Qs. For the second part, if there is a 10-K or 10-Q, they'll look at that; if not, they'll look at projections and testimony. And for new special-purpose entities, they'll look at the experience of the principal, and sometimes, although not always, the not just professed commitment by the principal, but financial stake of the principal in the enterprise.

So, assuming for the moment that that exercise needs to be gone through, that you don't just look at -- you don't just read similar to say similar in assuring performance, whereas, you know, you could say, well performance is just assured, you don't need to go father, are you arguing beyond that? Are you arguing that there is financial information that I should look at?

MR. CHESLEY: Your Honor, we're -- let me break it down into a couple -- answer that in a couple of ways. One, with respect to the financial information that has been presented, you have that. You have the stipulations. I'm

not going to sit here and say that Transform is Sears of 1991. But what the evidence before the Court is, it is the same operating entity that existed, in effect, before bankruptcy -- the same people --

THE COURT: But that's before bankruptcy.

MR. CHESLEY: Correct, Your Honor. Obviously, Sears in 1991 is not the same group of individuals that were running the business prior to October of last year. But I think in looking at that standard, Your Honor, I think there are a couple of things that are critical. One is the legislative history underlying it, and the legislative history made clear that, "The provision of 364(b)(3)(a) was intended to prevent a shopping center lease from being assigned to another business in poor financial condition." There are, to my knowledge Your Honor -- and I'm happy to be corrected, which I often am -- no cases that we have read that interpret similar under 365(b)(3)(a). It is not an issue that has been litigated nor reported on.

THE COURT: Well, there are courts that talk about -- they combine, as I said, the notion of no reasonable landlord would feel jeopardized with proportionate health. Not that the tenant necessarily be as large -- the prospective new tenant as large as the Debtor was when it entered into the lease, but that at least be proportionately as healthy.

MR. CHESLEY: Well, and Your Honor, to that end, as the exhibit from Mr. Frillman confirmed, shareholder equity, at least from the information that was available, is about $2 billion for Transform. That was the information that was made available. It is not what Sears was, but it is also, as the Court knows, a diversified company that is real estate, it is brand, it is ancillary services, it is operating approximately 400 -- actually, 425 retail stores, so it is a viable entity that meets the standard set forth in the code.

And I think what's also critical, and this goes back to the Ames Department Store line of cases, which I'd like to talk about in a minute, but what Ames made very, very clear is, in looking at the standards, you have to look at the lease. And the expectation of these parties when they entered into this lease in 1991 was very clear, that Sears had to operate a retail store for 15 years. After the termination of that operating period, Sears had broad rights, and we'll talk about going dark, to assume, to assign, and had great flexibility for this space. That was what was bargained for.

What was also bargained for was, at the time, an agreement by the parties as to what level of financial assurance the landlord would be looking at, to the extent that Sears wanted to offload or transfer or assign this

property to a third party. And what Section 25 of the REA made abundantly clear is, to the extent that occurs, Sears has no further liability if that party has shareholder equity of at least $50 million.

So, looking at the standards under the code, looking at what the parties absolutely understood at the time as to what would suffice, I think to, in effect, hide behind a strict reading that is not similar, but is absolute, and to compare apples to -- 1991 apples to 2019 oranges, Your Honor, I don't think is what the framers of the code contemplated, and in fact, not one that we see in any of the case law that we have relied upon.

THE COURT: And what about the reference to operating performance, as well as financial performance?

MR. CHESLEY: Well, operating performance is -- Sears is -- Transform is operating Sears stores. Transform is operating K-Mart stores.

THE COURT: Although not here.

MR. CHESLEY: But here, they're not required to operate a store.

THE COURT: So it's the same contract reference point.

MR. CHESLEY: Absolutely, you have to look at the contract. And I think that's really the point here, and that's not what -- if you heard the argument and you heard

the testimony, that's not what the mall is concerned about. What we heard today is, what they're really concerned about is what happens when Transform finds replacement tenants. First of all, as we have confirmed to the Court and the landlord, we intend to comply with all provisions of the lease and the REA. We're not asking for any relief from those provisions, nor do we believe any is necessary here, based upon the language of the lease and the REA.

And so, further to that, Your Honor, if in fact -- and this is where the concepts got conflated -- if in fact the Court is willing to allow the lease to be assumed and assigned and for Transform to, in effect, retain the value that it bargained for, then at that point, if it attempts to assume and assign, or sublease to a third party, it has to comply with the lease. And if it doesn't, nothing here today is vitiating any of the landlord's rights. Unfortunately, those will not be articulated by Your Honor, but likely in a court in Minnesota, but that's all we're seeking to do, is to maintain the benefit of that bargain.

THE COURT: Okay. There's a provision in the lease, 6.3, sale by tenant to landlord.

MR. CHESLEY: Yes, Your Honor.

THE COURT: And it says, in the event that at any time, and from time to time after the expiration of the Sears operating period, which I think everyone agrees is

expired, right --

MR. CHESLEY: Yes, Your Honor.

THE COURT: -- because it was 15 years from 1991, until the term expires, tenant decides to cease and ceases to operate a store in the tenant building, and further determines to sell, exchange, or otherwise transfer its interest in the lease premises, tenant shall, by giving landlord notice first offer, and then there's this fair market value right to exercise that offer. So if Transform finds a tenant, not for the whole three floors, but let's say for a significant portion of one floor, is it prepared to live with this provision?

MR. CHESLEY: We are prepared to live with Section 6.3. And in fact, Your Honor, we have to. If you look at 6.3C, big C, it's a tough agreement to get through, but it makes very clear that -- parties may have been prescient, I don't know. But Paragraph 6.3 does not apply to a transfer in a reorganization or a bankruptcy process. But on the top of Page 17, the foregoing provisions of 6.3 remain binding on the transferee. We agree that this will be binding on the transferee.

THE COURT: Okay.

MR. CHESLEY: So, Your Honor --

THE COURT: So --

MR. CHESLEY: Yes, I'm sorry.

THE COURT: This is a question for both of you, both sides. Again, I'm just thinking ahead in practical terms. Obviously, Mr. Ghermezian was quite concerned about the effect of Transform's assigning a portion of the space to a tenant or a sub-tenant that he believes would jeopardize the -- either the mix of the mall or the mall itself in some way, separate and apart from not being a specifically excluded tenant. And we have the general language that has also been referred to, you know, first class retail mall in 22. But I'm just, in my own head, playing this through. If you find any tenant, then he can exercise this right, right?

MR. CHESLEY: Yes, Your Honor.

THE COURT: It's not limited to the -- you don't have to wait until you've sublet everything. It's any tenant.

MR. CHESLEY: Yes, Your Honor, he has that right. That's what the parties negotiated in 1991.

THE COURT: Okay. Okay.

MR. CHESLEY: So, Your Honor -- I'm sorry.

THE COURT: Well, I -- does Mall of America Corp disagree with that? Well, maybe it's not even a disagreement. I guess it's a representation that's been made.

MR. FLYNN: No, Your Honor.

THE COURT: Okay.

MR. FLYNN: We think they're bound by that.

THE COURT: Okay. All right.

MR. CHESLEY: Just briefly, Your Honor, going back to the other factors that have been relied upon here, and turning back to Joshua Slocum, there have been a lot of claims about the harm that's going to befall this mall if the Court grants this motion. Again, we have to look back at the lease and what rights were contractually given to Sears in 1991, and as the REA and the lease made clear, any assign -- assignees, excuse me, or transferee.

The court in service merchandise again made clear were the lease provisions afford the tenant broad use and assignment rights. The tenant effectively, quote, has free control of the space, which as the court in service merchandise noted met the standards 365(b)(3) as to the issues raised in that case in the Middle District of Tennessee.

A lot of conversation here about the requirement to maintain an anchor or department store. Again, we just turn to the REA. This isn't hard. Section 22(c) of the REA has a very specific detailed provision of the obligations of Sears to maintain a department store for the first 15 years of the lease. Thereafter, the REA goes into substantial discussions about what Sears' rights are, which we have

talked about substantially. But most importantly, it states that Sears further covenants and agrees -- this is on Page 125 -- that during the remaining term of the REA, after the expiration of the major operating period, it then goes on to provide that. We've gone through this language repeatedly. I will not do it again. Sears could use this for retail purposes customarily found in --

THE COURT: But Sears --

MR. CHESLEY: -- an enclosed mall.

THE COURT: Sears and its assignees.

MR. CHESLEY: And its assignee. Its successors and assigns. It says it shall not, except for, and those are the retail activities, non-retail activities customarily incidental thereto, quote, or such other uses and purposes that are compatible and consistent with the regional -- first-class regional shopping center. That's all we're seeking to do, which is to protect that benefit of the bargain, but there is nothing here -- there is no reading of the REA or of the lease that crafts any obligation of Sears or Transform, if this motion is granted, to continue to operate a department store, much like Mr. Ghermezian admitted with respect to the Bloomingdale's store, which was cut up into several tenants over a four-year period.

As to the issue of going dark, while again the landlord claims about the harm of Sears remaining dark under

the lease, beginning in 2006 we have the absolute right to cease operating in the store. As the district court made clear in affirming this court's ruling in Great Atlantic & Pacific Tea Company, while, quote, the store being dark undoubtedly has a deleterious effect on the landlord, the possibility that the store would go dark was contemplated and permitted under the lease.

And as to tenant mix and the mall's claim that the mall is finely curated retail and hospitality venue, again, the lease which controls makes clear that Sears can operate, or its assignee or transferee can operate within these broad parameters.

As the court in Ames made clear again, 365(b)(3)(d) refers to contractual protections and not undefined notions of tenant mix. Quote, it would be anomalous to interpret Section 365(b)(3)(d) to preclude assumption in assignment of a lease where the lease itself affords unfettered rights to assign in some way.

No mistake here, Your Honor. We've made this clear. I'm not going to -- I don't need to make it again. We will comply with the terms of the lease. We will protect the landlord from any economic risk and are incentivized, as everybody is, to bring in replacement tenants as quickly as we can to this center. That's the benefit of our bargain.

In the end, Your Honor, is the declarations filed

by the mall plainly indicate the dispute really isn't about adequate assurance. It's about control. The mall wishes to rid itself of the economic terms of the lease it contractually bound itself to so it can capture and realize the economic benefits of this lease, which everybody acknowledges is in a first-class shopping center, and hand select a preferred tenant that will protect it from the claims of other tenants rather than afford the Debtors and Transform the benefit of its party.

Transference request, if the Court honored the benefit of the bargain, does not in the words of the Mall of America's CEO make us a scavenger, indeed, as the district court noted in A&P, quote, while the landlord's desire to get out of a lease is understandable, Section 365 affords no relief to a landlord simply because it might have the opportunity to rent the premises at higher rents to others and otherwise seek to escape the benefit of its bargain. That's all we're seeking here today, Your Honor. Thank you.

THE COURT: Are you -- in some ways, although the proposed assumption and assignment of this lease was part of the overall asset purchase agreement in which Transform bought substantially all of the assets of the Debtors and propose to continue to use most of those assets. But in some ways, this is -- this lease fits more into the situations where a Debtor entered into -- enters into a

designation rights agreement and for valuable consideration sells the right to a third-party real estate company to designate leases for assumption and assignment, usually to third parties.

MR. CHESLEY: Right.

THE COURT: Are you aware of any cases in the shopping center context where these types of issues have arisen in the context of a designation --

MR. CHESLEY: Of a designation rights, Your Honor?

THE COURT: Yeah.

MR. CHESLEY: None that are published. There were several that we were involved with that were not.

THE COURT: But no published decisions.

MR. CHESLEY: No.

THE COURT: All right.

MR. CHESLEY: And there shouldn't be a different standard, Your Honor.

THE COURT: Well, I mean, it goes to operations. You know, a real estate company that's buying designation rights isn't necessarily going to be operating --

MR. CHESLEY: Right.

THE COURT: -- the stores, for example.

MR. CHESLEY: Well, this is -- as the evidence is before the Court -- it's the nature of this business. It is a hybrid. It is a retailer. It is a real estate company.

And again, we'd continue to operate.

THE COURT: Well, it's the nature of Transform's business.

MR. CHESLEY: Yes.

THE COURT: Not necessarily Sears'.

MR. CHESLEY: Correct.

THE COURT: Although Sears owned a big lease portfolio, and for the last several years has been selling leases.

MR. CHESLEY: Exactly. That's part of the value that we purchased.

THE COURT: Are -- is the -- is MOAC aware of any recorded decisions in the designation rights context?

MR. FLYNN: No, Your Honor, not to date.

THE COURT: Okay. All right. I was -- I couldn't find any either. Okay.

MR. CHESLEY: Thank you, Your Honor.

THE COURT: Do you want to say anything in response?

MR. FLYNN: No. Yes, Your Honor. I would state that he was citing 365(b). The mere collection of rent is not the only thing that's required as a court thing. We have to go further than that.

I would agree that there's been no financial information of any reliable sort that has presented

whatsoever in this case by its own words, number one, and requires to be similar to that of Sears in 1991. There has been no evidence by any expert financial person. In fact, the only evidence submitted by an expert financial was ours, who said it's not anywhere near.

There has been no evidence of performance. They don't intend to perform. They are going to leave it dark. We don't know how long they are, and we are -- and obviously those provisions -- I mean, I -- respecting the Ames court, there is obvious that those kinds of provisions are not required to be in the contract in order to protect the landlord. So that's part of it, and it seems to make some people jar their nerves when they say, well, why are you better off in bankruptcy than you might be outside of bankruptcy? And the answer is because Congress said that. And they didn't say it ambiguously. In fact, amended it to reemphasize it at least once or twice in the last 20 years.

And we have no idea today what's going in that space. We have no idea of the performance ability of the tenant. We have no idea -- and there -- and I cited cases to say more -- to talk about you got -- because typically what happens is you have a tenant, and they don't have what -- and this is a little bit of a hybrid situation, just exactly what you said.

And we have rights under the code, which we would

like to enforce today, and that is require them to show what it is, the proper financial information, not -- and what they said, that's what they gave us, and what they gave us had disclaimers all over it saying don't rely on this. It just -- I don't know what we're supposed to do, not believe it? We're supposed to say, well, we know what they really mean. They didn't mean anything they said on that financial statement. They meant that it was really worth a lot of money. We have no idea what that really meant, and they said don't rely on it. And it certainly can't be used as assurance of anything. It said it right on their document, so we're supposed to know that they don't mean that.

So they didn't present anything about adequate assurance of any kind, and especially about whether or not it's similar to or -- to Sears' financial position in 1991, nothing. And it's really important.

We are not -- we don't want the equity in that lease. What we want is a successful mall, and they will not and cannot -- and they say if they don't make -- they don't get the money out of this thing, give it to somebody who would be appropriate to a mall because they can't get the rent out of that. They'd have to give -- the current market for any kind of major tenant is you pay them to come in. They're not going to do that, so they're going to try to chop it up. And every time -- they have to prove today, I

think -- it will be our position -- what that is, who they are, whether they fit with the tenant mix, and they presented no evidence of that. Zero.

And they -- and I get the argument that they say they can. We would disagree with that vociferously.

THE COURT: What's your responses to the fact that the parties agreed in Section 6.3 to give the landlord the protection of a fair market right of first offer?

MR. FLYNN: I think that that is wonderful they're agreeing to do that. We didn't know for sure that they were, and we understand that now they are. Our position is that we have rights in this courtroom today in addition to that, and we would like them to be recognized.

THE COURT: But as far as the economic impact on the mall is concerned, either -- or the -- you know; however you express that, either in the property itself or the effect of tenants on the whole mall, the landlord does have the course under the lease.

MR. FLYNN: Yes. However, we read it as saying in bankruptcy that they have a limited period of time. They don't have 70 years to try to rip that space out. They can't leave it dark for an unusually -- as I believe (indiscernible) said, even though in the lease it allowed them to go dark. And we would like some protections from that because if it sits there empty and they can't rent it,

and the only people that will come in there will not pay them enough rent, even though they'd be wonderful tenants there, we have a -- they're calling us. We want all the money. We're willing to pay money to get somebody in there.

I think -- but they might not have a tenant, or they might hold out for 70 years. What -- we're here in bankruptcy. We have more rights than that, and that Congress gave us those, and we're worried about those issues. So at a minimum, we'd need some period of time that want this to not go dark. At a minimum, we'd like to reserve our right to buy them out if it's -- yes, but we have other rights here today, and we don't think they presented any evidence on those other issues.

And it's very clear, obviously the courts have given us rights beyond what are contained in our contract. There's no contract in the world that says you can't assign this lease unless you have same or similar to the -- I think; maybe they do -- to Sears. They don't -- they didn't prove that.

Anyway, we would like our rights recognized here in this court today, and yes, we feel the -- once they assume the lease, they are bound by all its terms, but they claim they could rent it.

There are a number of provisions in the lease that maybe perhaps we'll have to litigate in the future about

what they can and can't do because we disagree about those. But I think -- I appreciate the court considering that our rights today is important to us. And --

THE COURT: Sorry to interrupt. In Mr. Ghermezian's testimony, he did not know when the form of Bloomingdale's space was fully sublet, but you did testify that the store was closed in 2012. Is there anything in the record to show when the first subleasing or tenancy was?

MR. FLYNN: No, Your Honor.

THE COURT: Oh.

MR. FLYNN: And just as an aside. I don't think it's controversial. It isn't -- still isn't sold but rented.

THE COURT: Well, I'm more focusing on the --

MR. FLYNN: Yeah.

THE COURT: -- buyout provision.

MR. FLYNN: Right.

THE COURT: I mean, I -- let me pose this question to the Debtor, all right, to Transform. Is Transform prepared to put some outside date on its first assignment of the property or subletting of the property? I mean, the prospect of just standing there and torturing MOAC for 73 years is, you know, obviously not a welcome one.

MR. CHESLEY: Well, it makes no economic sense for us either at $1 million a year. If I could talk really

briefly with Mr. (indiscernible), I can probably answer this relatively quickly --

THE COURT: Okay.

MR. CHESLEY: -- Your Honor. If I can.

Your Honor, I think it's consistent with the declaration as well. We could certainly live with the two-year outside date provided that we don't get interference from the landlord. If we've got the ability to go out and bring people in -- I'm not asking them to bend over backwards but, again, not interfere with our ability to sublet.

THE COURT: Two years to sublet some -- or assign some portion of this thing.

MR. CHESLEY: Yes, Your Honor.

THE COURT: Okay.

MR. FLYNN: Your Honor, may I address that?

THE COURT: Sure.

MR. FLYNN: That may be very little solace. There's three huge floors there. They could -- are they going to sublet --

THE COURT: No, I understand that, but I'm focusing -- you don't have to -- I'm not asking you to agree with me. I'm focusing on 6.3. If they sublet any, you know, any other than, you know, on, you know, a tobacco stand or something -- if they sublet anything, 6.3 kicks in,

and the landlord --

MR. FLYNN: Yeah.

THE COURT: -- isn't stuck then.

MR. FLYNN: Right.

THE COURT: Then they can do something.

MR. FLYNN: And we do appreciate that.

MR. CHESLEY: And similar, Your Honor -- I'm sorry.

MR. FLYNN: Excuse me. Giving them two years, is it the whole thing? Is it by floor?

THE COURT: No, no, no. My question was any -- no -- anything other than immaterial portion.

MR. CHESLEY: The only point I was going to add to that, Your Honor, is Section 6.3 also has a second clause that deals with if we're not able to, and we can simply submit that to evaluation.

THE COURT: Right. Wait. I'm sorry. Say that --

MR. CHESLEY: Section 6.3 has two clauses, Your Honor.

THE COURT: Right.

MR. CHESLEY: The first clause -- I'm sorry. I don't have it front of me, but the first clause refers to if we find -- basically are looking to transfer it to a third party.

THE COURT: Right.

MR. CHESLEY: There's that -- there's that provision. And if we can't --

THE COURT: Then you have the fair market value.

MR. CHESLEY: Exactly, through two appraisers.

THE COURT: Maybe I have it -- let -- if you'll just give me a second to read this more carefully.

Oh, well, you know what? I'm sorry. This provision -- I was really just focusing on the first offer point, but there is a second point. So if we can just look through this together.

In the event that at any time and from time to time after the expiration of the Sears operating period and until the term expires, tenant decides to cease and ceases to operate a store from the tenant building and further determines to sell, exchange, or otherwise transfer its interest in lease premises, tenant shall by giving landlord notice first offer to landlord the right to purchase the same at the price offered to tenant pursuant to a (indiscernible) offer, or if no such offer has been made to tenant at a price equal to the fair market value --

So it seems to me that subject to, you know, some modest time that courts give assignees to, in essence, get their act together after an assignment where the assignor/Debtor had ceased to operate, the market value kicks in right away under this provision. You don't have to

get a first offer. It just kicks in right away.

MR. CHESLEY: Yeah. I believe Your Honor is -- Your Honor is reading it correctly. There are two requirements at the front end: ceasing operation and further determines to sell, exchange, or otherwise transfer.

THE COURT: But that's happened, right

MR. CHESLEY: We are --

THE COURT: I mean, that's the whole -- that's the whole purpose --

MR. CHESLEY: We are very much at that.

THE COURT: -- of the two declarations.

MR. CHESLEY: And so, again, to the point of --

THE COURT: So you don't have to wait at all, in other words. You know? I mean --

MR. CHESLEY: We would certainly like the ability to see -- you know, again, to finish up what we could.

THE COURT: I understand, but this provision seems to suggest the other one. I mean, unless you're saying that this is an anti-assignment provision, and I don't think you were saying that.

MR. CHESLEY: No.

THE COURT: Because I think this fair market kicks in right away.

MR. CHESLEY: Mr. Martin pointed out, again, ceasing to operate, if we are a real estate company, is

different than operating a store.

THE COURT: No, but this is a store. Ceases -- and cease to operate a store.

MR. CHESLEY: Right, a store in the tenant building --

THE COURT: Yeah.

MR. CHESLEY: -- and further determines the sale.

THE COURT: Right. So I think all we're talking about here is who gets the fair market value. All the rest of it -- I mean, it's in the landlord's control. I understand your arguments about the statute. You don't have to -- but ultimately, in terms of value --

MR. CHESLEY: We agree this is about the value, Your Honor.

THE COURT: Right. I mean, and the parties agreed to a mechanism to deal with it in which MOAC can say, well, there's no value here because we have to pay a tenant, and Transform would say there's enormous value here.

MR. CHESLEY: We agree, Your Honor.

THE COURT: Okay. All right. All right. Anything else?

MR. FLYNN: Nothing, Your Honor.

THE COURT: Okay. I have before me a motion by the -- technically by the Debtors in this case to assume and assign a lease with now Mall of America Corporation, or

MOAC, of a substantial portion of the mall operated by the Mall of America in Minnesota. The assignee is Transform Holdco, and the assignment is part of the consideration -- that is seeking the assumption of assignment is part of the consideration supporting Transform Holdco's purchase price under the asset purchase agreement between the Debtors and Transform.

The landlord, MOAC, objected to the assumption of assignment, asserting that it does not comply with the applicable requirements of Section 363(b) and Section 363(f), which pertains to assignments of the bankruptcy code.

The parties have stipulated to a number of key facts here, which are agreed and part of the evidentiary submissions by the parties.

In addition, I have an agreed set of exhibits as well, which include the lease and the amended and restated reciprocal easement and operating agreement portions of which are incorporated into the lease, which the parties refer to as the REA.

I also have testimony from two witnesses for Transform and three from MOAC. Notwithstanding that substantial evidentiary record, the merits of the issues before me come down largely to disputed interpretations of the applicable requirements under Sections 365(b)(3) as

incorporated and 365(f). 365(b)(3) was enacted by Congress to provide additional protection for landlords and, under appropriate circumstances, other tenants in what Congress defined as shopping centers.

There is no dispute between the parties that the Mall of America is in fact a shopping center as defined in -- or for purposes of, rather -- Section 365(b)(3) and therefore that Section 365(b)(3) would apply.

That provision is introduced by the following. For the purposes of Paragraph 1 of this section and Paragraph 2B of subsection F as an aside, each of which require adequate assurance of future performance of a lease that is being assumed. Adequate assurance of future performance of a lease of real property in a shopping center includes adequate assurance, and then four different included types of adequate assurance are listed.

That provision doesn't exclude or exempt Debtors and their assignees from providing adequate assurance generally under 365(b)(1) and (f)(2)(b), but it adds the four enumerated additions.

I should preface the remainder of this ruling by noting, as stated aptly by former bankruptcy Judge Gerber in In re Ames Department Stores Inc., 348 B.R. 91, 98 (Bankr. S.D.N.Y. 2006), quote, in a legislative judgment built into the code, Congress has determined that subject only to

certain statutory safeguards, the value of a Debtor's leases should go to the Debtor's creditors and that leases can be sold to achieve that end, with or without landlord consent. That theme runs throughout the caselaw, interpreting Sections 365, including, as noted by the district court and (indiscernible) LLC the A&P, In re A&P 472 B.R. 666, 679 (Bankr. S.D.N.Y. 2012).

It's also important to note that the four protections specifically provided for in connection with adequate assurance of future performance of a shopping center lease is with respect to just that: adequate assurance of future performance of a lease of real property, i.e. the focus is on performance of a lease in the future.

Before turning to those sections, I should note the following. Based on the record before me, it is clear that Transform, the assignee, separate and apart from those four sections has, in fact, provided adequate assurance of future performance of the lease.

The caselaw is clear when dealing with adequate assurance generally that the Court should employ a pragmatic analysis as to whether sufficient assurance has been provided that the lease will be performed in the non-shopping-center context that focuses generally on the ability to pay rent on a going-forward basis, both the specific rent and other financial performance such as

payment of taxes, common area maintenance charges, and the like, which are either denominated as rent or a separate financial obligation under the lease.

It is not an absolute guarantee but rather focuses on whether performance is likely, i.e. more probable than not. See generally in re M. Fine Lumbar Co. 383 B.R. 565, 573 (Bankr. E.D.N.Y. 2008) and the cases cited therein.

And yet outside of the (b)(3) context, it is routinely held that adequate assurance can be shown in large measure simply by the fact that the lease itself is a favorable lease, i.e. favorable to the tenant, and has significant value. The theory being that even if the tenant defaults, the landlord will not be damaged because it will be able to reap the value of the then-terminated lease, at Page 573.

In addition, courts very typically look to some form or other of security deposit, either in the form of a letter of credit, escrow agreement, or deposit with the landlord. If necessary, they go further to examine the assignees financial condition, although they are perfectly willing to accept a newly formed entity as an assignee, particularly where there is a sufficient security deposit or escrow, and the newly formed assignee is run by a principle that has substantial experience in whatever business the assignee intends to conduct and has a financial stake in

that business succeeding.

Here, it appears clear to me that this lease is a very favorable lease. The stated rent under the lease is $10 a year. Parties agree that the aggregate monetary obligation of the tenant, which includes an obligation to pay its share of taxes and other common charges and fees, is somewhere between 1,000,001 and 1,000,002 annually.

The assignee has committed to put into escrow, and it would obviously have to be an escrow that has no strings attached to it other than the occurrence of nonpayment that sum of money.

In addition, it's clear to me from the record and, in addition, documents with which I can take -- of which is could take judicial notice of the docket of this case that the assignees' senior management has extensive experience in marketing and selling Sears' real property, including favorable leases.

In addition, although I don't believe under the circumstances this would be necessary for finding adequate assurance for future performance under Section 365(b)(1) and (f)(2)(b), it appears to me that Transform has successfully completed substantial financings with respect to both its operating portfolio and its real estate portfolio.

While I do not believe I can accept as whole -- however wholly the statement in the draft consolidated

financial statement offered by Transform as part of its showing of adequate assurance of future performance that it has in excess of 250 million of equity. I do believe that it has substantial equity and that it's highly likely that that equity exceeds $50 million. I cannot believe that third-party lenders would provide the level of financing that they have to transform without at least that level of solvency.

The legal support for all of the foregoing discussion of the applicable standard, in addition to the M. Fine Lumber case that I just cited can be found in numerous cases which focus on the foregoing types of adequate assurance, and the fundamental focus on the assignee's ability to pay rent, as stated by the District Court in In Re Sanshoe Worldwide Corp. 139 B.R. 585, 592 (S.D.N.Y. 1992). See also In Re Citrus Tower Boulevard Imaging Center, LLC., 2012 Bankr. LEXIS 2208 at Pages 15 through 20, (Bankr. N.D. Ga. Apr. 2, 2012), In Re Bygaph, Inc., 56 B.R. 596 (Bankr. S.D.N.Y), In Re Westview 74th Street Drug Corp., 59 B.R. 747, 755 (Bankr. S.D.N.Y. 1986), and In Re Casual Male Corp, 120 B.R. 256, 264 (Bankr. D. Mass. 1990).

The party dispute therefore hinges on the meaning and purpose of Section 365(b)(3) and how and/or whether it adds additional requirements beyond those that I've already found are met for adequate assurance of future performance.

Both sides recognize that the legislative history of this section is fairly substantial. It recognized the harm to landlords, and through them other tenants, non-Debtor tenants in shopping centers which are operated on an integrated basis that could result from the assignment of a lease of real property for one portion of the center.

Legislative history also makes it clear, however, that the underlying purpose of the provision, consistent with the notion of adequate assurance for future performance of a lease generally is that both sides, including the landlord, get the benefit of their bargain, which I believe it goes without saying, is the bargain memorialized in their lease.

It is also the case, which is well-recognized, that Section 365(b)(3), as is the case with Section 365(b)(1) and (f)(2)(B), is subject to another provision of Section 365, 365(e), which in essence invalidates with respect to an assumption or an assumption and assignment the efficacy of provisions conditioned on the insolvency or financial condition of the Debtor any time before the closing of the case, the commencement of the case under this title, or the appointment of or taking possession by a trustee in a case under this title, with exceptions stated further on in the section.

However, although that section does find some

important interpretation in case law that the parties have cited, it is not really at issue in the present dispute before me, which really hinges again on what the effect of Section 365(b)(3) has on what I've already found is adequate assurance of future performance by the assignee.

That dispute really falls into two categories: first, the landlord points to Section 365(b)(3)(A), which states, again with the lead-in, that adequate assurance of future performance of a lease of real property in a shopping center includes adequate assurance, A, of the source of rent, and other consideration due under such lease, and in the case of an assignment, that the financial condition and operating performance of the proposed assignee and its guarantors, if any, shall be similar to the financial condition and operating performance of the Debtor and its guarantors, if any, as of the time the Debtor became the lessee under the lease.

Sears became the lessee under the lease in 1991. It's undisputed that its operating performance at that time and financial condition generically is superior to the financial condition and operating performance of Transform. Sears at that time had over 3000 stores. Its business as a whole, as evidenced by the public financial filings in the record showed a far more substantially -- far and larger business than Transform has. Under the asset purchase

agreement, Transform acquired roughly 600 leased locations, of which it proposed to operate approximately 425, which it has now reduced to approximately 400.

Moreover, with respect to this particular leased property, Transform does not propose to operate the property as Sears initially would operate it. Rather, Transform is quite clear in stating that it is taking, proposing to take the assignment for the sole purpose of reassigning or subletting the space at a profit. That is, to take advantage of the economic value of the lease.

There are not a lot of cases construing this provision. In fact, I have found only three. Each of them makes it clear that it is to be construed not in a mechanical way, but rather consistent with the underlying charge as set forth in the preface to it, the general language in Section 365(b)(3) which again refers to adequate assurance of future performance of the lease itself. The District Court for the Southern District of New York affirmed the determination by the Bankruptcy Court of In Re Ames Department Stores, Inc. 2003 U.S. District LEXIS 3150 (S.D.N.Y., March 5, 2003), in which Judge Gerber concluded that the assignee had satisfied this subsection.

As the District Court stated, quote, "The Landlord further argues that Judge Gerber 'erroneously appl[ied] financial aspects of [the May 19, 1999] financial

statement,'" that is, the statement when the lease was originally entered into, "'selectively to emphasize 'similarity' while ignoring other aspects in which enormous differences in financial condition and operating performances were evident.'

The Landlord argues that comparison of Debtor's 'per-store sales and profit' to Building 19's," as the assignees, "'completely disregard[s] the incomparable difference in financial depth and resources which [Debtor] had.' The Landlord goes on to argue that a finding of "similarity" under 365(b)(3)(A) requires that 'big box' 'tenants' should be replaced by other 'big box' tenants."

The District Court then goes on to say again, I'm still quoting, "the landlord's arguments find no support in the case law. In support of its argument, defendant cites language in In Re Casual Male Corp, 120 B.R. 256 (Bankr. D. Mass. 1990) that the financial condition and operating performance of [the assignee] must be at least as strong as was the Debtors' [at the time the lease was executed].

But In re Casual Male does not stand for the proposition that a Bankruptcy Court cannot apply a proportional comparison of the financial health of the assignee and the Debtor; indeed, the Court in that case specifically compared the ratio of the assignee's assets to current liabilities at the time of the assignment to the

Debtor's ratio of assets to liabilities on the date the Debtor acquired the lease.

The court in In re Casual Male," I'm still quoting, "went on to hold that since the assignee was recently incorporated, its operating performance was dependent on the business experience of its sole owner and operator. Accordingly, the Court found the strength of the owner-operator's experience compared favorably to the actual strength of the Debtor's operations. Thus, the Casual Male court's determination of the similarity of profitability and operating performance in no way relied upon a construction of the statute to require the same gross profits and performance between assignee and Debtor in that case."

I'll note also that in the Casual Male Corp case cited by the Ames Court, the Bankruptcy Court's focus was based on "the statute's prime purpose to provide adequate assurance for the future payment of rent." And the Court found, as I've already found, that that issue was not in reasonable doubt.

A similar approach was taken by the District Court in Ramco-Gershenson Properties L.P. v. Service Merchandise Company, 293 B.R. 169 (M.D. Tenn. 2003). There, the Court concluded, based on a number of factors, including guarantees and fairly limited financial disclosure, that "a reasonable landlord would have been adequately assured of

future operating performance."

This issue, i.e. the meaning of Section 365(b)(3)(A) bleeds over into the second issue that the parties disagree on, which is whether the Court should read the four requirements in Section 365(b)(3) separate and independent from the party's lease from which adequate assurance of future performance is at issue. Transform contends that these provisions must be read, and cabined by the parties' actual agreement, says the purpose of the statute is to give not only the Debtor the rights of 365, but the landlord the benefits of its bargain.

MOAC contends to the contrary, that these are separate requirement, independent from what the parties agreed to. This issue is relevant as to what Congress intended in Section 365(b)(3)(A) in part because under the lease at issue, it is clear that after the first 15 years of the lease, and by the way, the lease with extensions runs for a total of 100 years, but after the first 15 years, the tenant, its successors and assigns, is subject to certain very weak limitations, free itself to cease operating, and to assign its rights. The parties imposed a specific prohibition in Section 25 of the lease, that the tenant have $50 million of shareholder equity, far less, I believe than Sears had when it entered into the lease, at least according to its public financial statements or financial filings in

1991.

If -- and when I say Section 25, I'm referring to the Rea, which is incorporated -- that particular section is incorporated into the lease. According to the proposed assignee, Transform, I should look at the reference to financial and operational performance, in light of what the parties actually agreed to and determined was relevant to the right to assign. The landlord states that the contract between the parties is essentially irrelevant.

I conclude, for purposes of this section, as well as the other three subsections of 365(b)(3) that each requires reference back to the party's actual agreement, and that Congress did not create independent requirements that would not go to actual assurance of future performance, but rather wanted to focus the Court on, obviously still subject to Section 365(e), taking into account the landlord's rights under the lease, as implicated by these four subsections.

The case law in support of that view is extensive and persuasive. Perhaps the best analysis is again in the Ames Department Stores bankruptcy case, this time appearing at In Re Ames Department Stores 127 B.R. 744 (Bankr. S.D.N.Y. 1991). In that opinion, the Court was not interpreting Section 365(b)(3)(A), but rather (b)(3)(D), which states that adequate assurance of future performance of a lease of real property, a shopping center, includes

adequate assurance, that assumption or assignment of such lease will not destroy any tenant mix or balance in such shopping center.

In the Ames opinion, former Bankruptcy Judge Bushman notes again that the entire section is prefaced by a reference to adequate assurance of future performance of such contract of the lease itself obviously with the focus on the lease. He then noted the purpose of the statute, which was to protect the bargain between the parties, and finally noted the general bankruptcy law principal that unless specifically provided for in the Bankruptcy Code, bankruptcy does not rewrite the parties' non-bankruptcy bargained-for rights.

He concludes, "where there is no indication of any intention by Congress to do anything other than hold a shopping center Debtor-Tenant to its bargain with a landlord and to leave intact the property interests of debtor and landlord as set forth in that bargain, the Courts should not imply an additional non-bargained-for term. To construe the statute in the manner urged by," in that case the landlord, "would be 'a flight of redistributive fancy.'" That appears at Page 753.

That case law has been followed rather uniformly since then, including by the District Court in In Re A&P, 472 B.R. 678 through 679, again in connection with the

tenant mix issue, and In Re Toys R Us Property Company, 2019 Bankr. LEXIS 440 at Page 13 (Bankr. E.D. Va., Feb. 11, 2019). The landlord has contended that there are other cases going in the opposite direction and imposing a separate requirement that would not appear in the parties' lease under Section 365(b)(3).

Namely, it asserts In Re Rickel Home Centers, 240 B.R. 826, appeal dismissed, 209 F. 3d. 291, 3rd Cir. 2000, cert denied, 531 U.S. 873 2000. And In Re Casual Male Corp., 120 B.R. 256. A close reading of those cases does not really support that contention. In Rickel Home Centers, the primary purpose of the court throughout, in response to various landlords' objections in a shopping center context, to an assignment whereby the assignee would only occupy a certain part of the store, the store would go dark for a period of time, and the like, was as to the application of 365(e) to those contractual restrictions. And the Court concluded that, with limited exceptions, 365(e) should in fact, apply to invalidate those contractual restrictions, as a restraint based on the Debtor's financial condition of the right to assign.

One of the three landlords raised an objection, again under 365(b)(3)(d), based on not its contractual provision, but the general notion that tenant mix must be maintained, even if there is no such contract. The Court

concluded that under 365(e), the proposed assignee should be given a reasonable time to sublet the premises, which the subtenant agreed, in addition to stating that it would do so as quickly as possible, would be the specific time period that it stated it could do it in, which was, the assignee proffered six months. The Court accepted that commitment and overruled the objection.

But it first noted, although it did not have to rule on this basis, "The Court notes that the Bethlehem lease does not contain any provision prohibiting going dark to this extent. Net cannot argue that the assignment from the Debtor to Staples will interfere with any provision of the Bethlehem lease." It then went on to conclude that in any event, that I'm by which the assignee would be taking to sublet the premises was not unreasonable.

In Casual Male, the focus of the Court, as I stated, was on Section 365(b)(3)(A), but given the deposit of six months' rent in advance, and the support by the newly-formed tenants' principal, as well as working capital loan from its principal, that was sufficient similar financial condition and operating performance. One cannot take away from that decision, which of course would not be controlling precedent on me anyway, the belief that Congress created a new standard in Section 365(b)(3), that would override the parties' own agreement as a limitation on

assumption and assignment.

I will note one other case, In Re TSW Stores of Nanuet, Inc., 34 B.R. 299 (Bankr. S.D.N.Y. 1983), in which the Court again interpreted a restrictive use covenant and then went on to hold that it appeared in this situation there would be economic detriment to the landlord based on the respective assignee's stated intention to vary that covenant or breach it.

I conclude therefore that based on my general -- my findings with respect generally to adequate assurance of future performance, the differences in financial condition and operating performance are not such as to preclude the assignment of this lease, which has its own limitations on assignment in it, which I have found the Debtor and the assignee have satisfied.

For the record, I also conclude that if that legal determination is incorrect, and that the case law is cited and follow on the grounds of stare decisis is incorrect, then the financial condition and operating performance of Transform is not similar to Sears in 1991. Transform has not carried its burden to show, for example, that the ratio as far as its financial health, is the same, notwithstanding that it has shown that it's sufficiently financially healthy, when coupled with the favorable nature of the lease and deposit of an amount equal to the annual projected

monetary payment under the lease, that it is sufficiently healthy.

There's no issue as to percentage rent under the lease, and I believe I've already addressed the tenant mix point. But let me reiterate that there's no specific provision in the lease, other than a broad provision in Section 22(c) as to Sears and its assignee's right to use and assign the property, limiting tenant mix. Such broad provisions are well-recognized as not precluding an assignment generally in the shopping center context. See Ramco-Gershenson Properties L.P. v. Service Merchandise Company, 293 B.R. 169, for example. The lease also has very broad rights pertaining to use restrictions after the major operating period, or the tenant operating period, which the parties agree has already expired. And I do not believe that given that Transform will be bound by those broad use restrictions, and acknowledges it will be, that it's violating them as an assignee.

My determination with respect to the effect of 365(b)(3) is guided with respect to this lease by one other consideration. Based on the testimony before me, it appears to me that the landlord's main, if not primary, if not only, rather, concern is not necessarily to affirmatively usurp the value of the lease for its own benefit, as is the case in most of the cases cited, where the lease is favorable,

and the landlord has objected.

Rather, it appears to me that the landlord desires to control the property for the aggregate benefit of itself, which may mean that it would cut another very favorable lease to an anchor tenant. That does, in the abstract, fit into or conform with Congress's overall concern when enacting Section 365(b)(3), that the Court take into account the overall effect of the assignment on the shopping center and the landlord's interest in it.

However, consistent with my view and the Court's view, generally, that 365(b)(3) is to be interpreted in light of and limited by the parties' actual agreement, I note that Section 6.3 of the lease provides that "in the event that at any time, and from time to time after the expiration of the Sears operating period," which again has expired, "and until the term expires, the tenant decides to cease, and ceases to operate a store in the tenant building," which we know has occurred, "and further determines to sell, exchange, or otherwise transfer its interest in the leased premises," which we also know has occurred, "tenants shall, by giving landlord notice, first offer to landlord the right to purchase the same, one, at the price offered to tenant pursuant to a bona fide offer in a good faith, arms' length transaction, when a prospective purhcaser-assingee, unrelated to tenant, and on the same

terms and conditions offered to tenant, or two, if no such offer has been made to tenant at a price equal to the fair market value of tenant's leasehold estate, including the value of its improvements.

And the parties then set forth a half-page mechanism of how that fair market value would be determined. It has often been held that rights of first offer are among the types of provisions and leases that trigger Section 365(e)'s prohibition on, or exemption from performance by a Debtor of provisions based on the Debtor's financial condition, that would preclude or prevent assignment, or as found in 365(f). Here, Transform has chosen not to make such an argument. Rather, it is stated on the record, it accepts that if it becomes the assignee of this lease, it will be bound by al the terms of the lease, including this provision. Well, let me back up. It is confirmed on the record it will be bound by this provision.

It appears clear to me then, first that the parties actually, in keeping with their sophistication, contemplated an event like this, and spelled out their bargain as to what would happen in Section 6.3. And secondly, that the landlord in this section bargained for a measure of control in the event, which is what has occurred here, that the tenant ceases to operate a store in the property, and is looking to sell the leased premises.

So it actually does, in fact, have the control that it has stated, is its primary concern. And the issue then is simply, I believe, one where the parties are fighting over who has the right to the fair market value of the estate: the Debtor, by selling it to Transform, that is the leasehold estate: the Debtor, by selling it to Transform, or the landlord, by convincing the Court that its interpretation of 365(b)(3) preclude such an assignment. So, if Congress did, in fact, intend those provisions to, in the balance, between giving value to a Debtor and its creditors, and protecting the landlord, provide additional requirements, the parties' contract in fact does protect the landlord, while preserving the fair market value for the Debtor through an assignment to Transform.

I also will note finally that transform has represented on the record today that even if the landlord does not take up the -- or not exercise its right, under Section 6.3, it will not hold the landlord in suspense over tis commencement of reletting the premises for the full term of the lease, which has 73 more years to run, but rather will cap the outside date by which it will at least commence reletting the premises for two years on the condition that the landlord will not interfere with its marketing process.

The testimony is certainly not ample on this topic. I have the declarations of Transform's witnesses, as

well as the cross-examination of Mr. Ghermezian, but it appears to me that two years is not an unreasonable amount of time for a property like this to enter into at least one material sublease or assignment, which again, subject to the broad, or, well, their phrase, weak restrictions in the lease, Sears and its assignees have an absolute right to do. That testimony reflects a judgment first by Transform's witness, that such a period is a reasonable one, as well as the testimony on cross-examination that it took years, in the plural, to sublet the premises after the closing of the Bloomingdale's store at the mall.

So in light of all of that, I conclude that the objection should be denied, and that the assumption and assignment motion should be granted. It is again, subject to the representations made on the record today by Transform with respect to the operation of 6.3 of the lease, and the initial subletting of a portion of the premises within two years, on the condition that the landlord not interfere. So I'll ask Transform's counsel to submit an order to stipulate that ruling.

MR. CHELSEY: We will, Your Honor. We will obviously pass that by counsel (indiscernible). Thank you, Your Honor.

THE COURT: Okay, you don’t need to formally settle it, but you should circulate it to MOAC's counsel.

MR. CHELSEY: We will, Your Honor. Thank you.

THE COURT: Thank you.

(Whereupon these proceedings were concluded at 2:25 PM)

C E R T I F I C A T I O N

I, Sonya Ledanski Hyde, certified that the foregoing transcript is a true and accurate record of the proceedings.

Sonya Ledanski Hyde

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Date: August 28, 2019